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**ROTOGRO**  
INTERNATIONAL LIMITED

## **Roto-Gro International Limited**

**ABN 84 606 066 059**

### **Annual Report and Appendix 4E 30 June 2019**

#### Registered and Business Office

Level 11, 216 St Georges Terrace  
Perth WA 6000  
T: +61 8 9481 0389  
F: +61 8 9463 6103  
E: [info@rotogro.com.au](mailto:info@rotogro.com.au)

#### Directors

Michael Carli (Non-Executive Chairman)  
Michael Di Tommaso (Executive Director)  
Michael Slater (Non-Executive Director)  
Jamie Myers (Non-Executive Director)  
Terry Gardiner (Non-Executive Director)

#### Company Secretary

David Palumbo



**Roto-Gro International Limited**  
**Appendix 4E**  
**Preliminary final report**

**1. Company details**

Name of entity: Roto-Gro International Limited  
ABN: 84 606 066 059  
Reporting period: For the year ended 30 June 2019  
Previous period: For the year ended 30 June 2018

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**2. Results for announcement to the market**

			\$
Revenues from ordinary activities	up	145.6% to	1,139,840
Loss from ordinary activities after tax attributable to the owners of Roto-Gro International Limited	up	93.4% to	(6,171,841)
Loss for the year attributable to the owners of Roto-Gro International Limited	up	93.4% to	(6,171,841)

*Dividends*

There were no dividends paid, recommended or declared during the current financial period.

*Comments*

The loss for the consolidated entity after providing for income tax amounted to \$6,171,841 (30 June 2018: \$3,191,738).

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**3. Net tangible assets**

	<b>Reporting period Cents</b>	<b>Previous period Cents</b>
Net tangible assets per ordinary security	<u>2.70</u>	<u>3.36</u>

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**4. Control gained over entities**

Name of entities (or group of entities) Roto-Gro Inc Group  
Date control gained 28 March 2019

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**5. Loss of control over entities**

Not applicable.

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**6. Dividends**

*Current period*

There were no dividends paid, recommended or declared during the current financial period.

*Previous period*

There were no dividends paid, recommended or declared during the previous financial period.

**7. Dividend reinvestment plans**

Not applicable.

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**8. Details of associates and joint venture entities**

Not applicable.

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**9. Foreign entities**

*Details of origin of accounting standards used in compiling the report:*

All foreign entities of the group report under International Financial Reporting Standards.

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**10. Audit qualification or review**

*Details of audit/review dispute or qualification (if any):*

The financial statements have been audited and an unqualified opinion has been issued.

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**11. Attachments**

*Details of attachments (if any):*

The Annual Report of Roto-Gro International Limited for the year ended 30 June 2019 is attached.

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**12. Signed**

Signed 

Michael Carli

Non-Executive Chairman

Date: 30 August 2019

**Roto-Gro International Limited**

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**Annual Report - 30 June 2019**

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**Roto-Gro International Limited**  
**Corporate directory**  
**30 June 2019**

Directors

Mr Michael Carli (Non-Executive Chairman)  
Mr Michael Slater (Non-Executive Director)  
Mr Michael Di Tommaso (Executive Director and Chief Operations Officer)  
Mr Terry Gardiner (Non-Executive Director)  
Mr Jamie Myers (Non-Executive Director)

Company secretary  
Chief Executive Officer  
Chief Financial Officer

David Palumbo  
Adam Clode  
Melanie Leydin

Registered office / principal place of  
business:

Level 11  
216 St Georges Terrace  
Perth  
WA 6000  
Tel: 08 9481 0389  
Fax: 08 9481 6103

Share register

Link Market Services Limited  
Level 4, 152 St Georges Terrace  
Perth  
WA 6000  
Tel: 1800 647 819  
Fax: 02 9287 0303  
Email: [info@linkmarketservices.com.au](mailto:info@linkmarketservices.com.au)

Auditors

RSM Australia Partners  
Level 32, Exchange Tower  
2 The Esplanade  
Perth  
WA 6000

Stock exchange listing

Roto-Gro International Limited shares are listed on the Australian Securities  
Exchange (ASX code: RGI)

Website

<https://www.rotogro.com/>

Corporate Governance Statement

The 2019 Corporate Governance Statement can be found online at the location below  
<https://www.rotogro.com/corporate/>

**Roto-Gro International Limited**  
**Directors' report**  
**30 June 2019**

The Board of Directors ('the Board') present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'consolidated entity' or 'group') consisting of Roto-Gro International Limited (referred to hereafter as the 'company' or 'parent entity') and the entities it controlled at the end of, or during, the year ended 30 June 2019.

**Directors**

The following persons were directors of Roto-Gro International Limited during the whole of the financial year and up to the date of this report, unless otherwise stated:

Michael Carli (Non-Executive Chairman)  
Michael Slater (Non-Executive Director)  
David Palumbo (Non-Executive Director) (resigned 30 June 2019)  
Julian Atkinson (Non-Executive Director) (resigned 28 February 2019)  
Nathan Lude (Executive Director) (appointed 28 February 2019, resigned 30 June 2019)  
Michael Di Tommaso (Executive Director) (appointed 30 June 2019)  
Terry Gardiner (Non-Executive Director) (appointed 30 June 2019)  
Jamie Myers (Non-Executive Director) (appointed 30 June 2019)

**Principal activities**

The principal activity of the group during the financial period was the production and sale of patented and proprietary hydroponic Rotational Garden Systems ("RotoGro Garden Systems") and the sale and production of advanced automated nutrient delivery and water management systems ("Fertigation Systems").

**Dividends**

There were no dividends paid, recommended or declared during the current or previous financial year.

**Review of operations**

The loss for the consolidated entity after providing for income tax amounted to \$6,171,841 (30 June 2018: \$3,191,738).

**Miracle Valley**

As announced in April 2018, the group secured an order of CAD\$2.3M from Miracle Valley Medicinal Alternatives M.V.M.A. Ltd. ("**Miracle Valley**") for its 29,000 sq. ft. 'state of the art' cultivation and manufacturing facility in British Columbia, Canada. To date, Miracle Valley has paid the group CAD\$1,000,000 in non-refundable deposits.

Manufacturing for this order progressed well during the half-year ended 31 December 2018, although Miracle Valley has encountered numerous delays relating to the construction of its facility. The group completed the initial delivery and installation of twenty-four RotoGro Rotational Hydroponic Garden Systems (the "**RotoGro Systems**") for Miracle Valley in January 2019. With the successful completion of the first grow room at Miracle Valley's facility, RotoGro made a subsequent delivery of 24 RotoGro Systems in February 2019. Miracle Valley was awarded its Cultivation Licence by Health Canada in Q2 2019, following which Miracle Valley planted its first crops in its RotoGro Systems at quarter end with the supervision and guidance of RotoGro's Plant Scientist, Delaney Bray-Stone, pursuant to its CAD\$2.3M purchase order. In addition to technical and strain support, Mr. Bray-Stone has also attended Miracle Valley's facility to provide growing management support during its first growth cycle (which is now nearing completion for harvest).

**Oakum Cannabis Corporation (formerly Frozen Penguin)**

Roto-Gro World Wide (Canada) Inc., a wholly owned subsidiary of the group, secured an AUD\$600,000 order with Oakum Cannabis Corporation (formerly known as Frozen Penguin Medical Industries Inc.) ("**Oakum**") in Q1 2019 for 48 RotoGro Rotational Hydroponic Garden Systems (the "**RotoGro Systems**"). Manufacturing of this order was completed post financial year-end, when the balance of payment of AUD \$300,000 for the order was paid by Oakum.

The group delivered and installed 48 RotoGro Systems in August 2019. Oakum expects to be operational by the end of Q3 2019, and the group continues to provide support and guidance to assist Oakum throughout this process.

**Roto-Gro International Limited**  
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**Siksika Herbz GP Inc.**

The group entered into substantive discussions with Siksika Herbz GP Inc. ("**Siksika**"), a company associated with Oakum located in the Province of Alberta, Canada. The first phase of the design for Siksika's facility provides for 150 RotoGro Systems. The Siksika team will visit the group's manufacturing and research and development facility located in Caledon, Ontario, Canada (the "**RotoGro Facility**") in Q3 2019.

**Supra THC Services Inc.**

During the year ended 30 June 2019, the group entered into a definitive share purchase agreement with Valens GroWorks Corp. to acquire all of the issued and outstanding shares in the capital stock of Supra THC Services Inc. (the "**Supra Agreement**").

The group engaged Cannabis Compliance Inc. (a preeminent Canadian cannabis compliance firm) to assist with conversion and amendments to the Analytical Licence to permit additional cultivation methods and to construct and outfit a cultivation and processing facility comprising approximately 44,000 square feet (the "**Cultivation Facility**").

During the year, the group paid a deposit relating to the acquisition of Supra THC amounting to \$1,339,984. As the acquisition was not finalised and as the deposit is not refundable it has been written-off to the statement of comprehensive income under corporate and administrative expenses.

**Gibio**

As announced in May 2018, the group entered into a letter of intent ("**LOI**") with perishable foods grower, Gibio Inc ("**Gibio**"), a company incorporated in the Province of Quebec, Canada, providing for the group to hold 9.09% of the issued ordinary shares in the capital stock of Gibio.

During the year ended 30 June 2019, the group delivered and installed two prototypes of its 8' rotational hydroponic garden system (the "8' RotoGro System") at Gibio's research facility located in St. Apollinaire, Quebec, Canada. The 8' RotoGro System is used to cultivate leafy green varieties under varying operational parameters including lighting, feeding and rotation speeds.

In Q2 2019, the group entered discussions with Gibio to decline the right to subscribe for additional participation in Gibio's share capital pursuant to the LOI. Furthermore, the group has provided the option to Gibio to redeem the group's 9.09% shareholding in Gibio on or before 31 March 2020 for CAD\$375,000.00 (being the same value paid by the group).

Declining the right to subscribe for additional participation in Gibio is consistent with the group's strategy pursue joint ventures with cultivation partners in both perishable foods and lawful cannabis in lieu of capital-intensive projects. Aligning with established cultivation "partners" with secured funding and a clear path to operational revenue is critical to RotoGro's successful transition to sustained operational revenue supported by technology sales while striving for near term cashflow positive operations and value appreciation to shareholders.

**Freshero**

During the year ended 30 June 2019, the group entered into a Heads of Agreement with Freshero Pty Ltd ("**Freshero**") to leverage its patented and proprietary RotoGro Systems, crop management fertigation hardware and software systems (the "**Freshero Agreement**") as part of Freshero's urban vertical farming offering. The Freshero Agreement provides for exclusive long-term equipment, operational management and maintenance contacts with an overriding royalty paid to RotoGro, generated on revenue from the sales of perishable foods produced at each Freshero facility globally.

Freshero's growing trials commenced on 1 November 2018 in the dedicated perishable foods grow rooms at the RotoGro Facility. The initial trials pertaining to the cultivation of leafy greens produced results which surpassed expectations for crop yields and growing cycles. RotoGro's botanist and Freshero's agronomist collaborated, accumulating and processing data on crop inputs and yields for both leafy greens and fruiting varieties. The group plans to have the growing trials expanded and replicated at a showroom and research facility that Freshero is currently sourcing in New South Wales, Australia. The Australian facility will initially house several RotoGro Systems for concurrent testing for the purpose of establishing Freshero's first commercial operation at the same facility during the first half of 2020.

To financial year end, the perishable foods trials continued to outperform yields and product quality of comparative conventional outdoor farming. Freshero provided confirmation of favourable economics utilising High Pressure Sodium (HPS)

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**30 June 2019**

lighting systems, with trials moving to studies around yield and product quality utilising the group's new state-of-the-art custom LED lighting system, which will provide significant cost savings by way of reduced power consumption. Furthermore, the group's Plant Scientists conducted various strawberry trials, with the plants yielding symmetrical fruits with a good colour and excellent taste, exceeding Freshero's expectations.

The next steps for Freshero include the completion of the fully automated engineering solution for its proposed global facilities, starting with Freshero's flagship pilot facility located in New South Wales, Australia.

**GFS**

In Q3 2018, Global Fertigation Solutions Inc. ("GFS"), a wholly owned subsidiary of the group, completed the acquisition of the assets and ongoing contracts of Hanson's Water Treatment Inc. ("Hanson") associated with Hanson's fertigation business. This acquisition provided the group with a turnkey nutrient management delivery system integrated with the RotoGro Systems, as well as the opportunity to generate revenue from the sale of fertigation systems to other agricultural applications.

In November 2018, GFS progressed well with a strong sales pipeline drawing from its exhibit at the MJBiz Conference held in Las Vegas, Nevada, USA. The MJBiz Conference was attended by over 27,000 industry professionals and hosted more than 1,000 exhibitors. The Conference provided the Group and GFS with extraordinary opportunities for networking and new business generation which has resulted in a significant number of design and quote proposals. At the Conference, RotoGro showcased the RotoGro competitive advantage and GFS's patent-pending fertigation systems for all agricultural applications, building on the twelve lawful cannabis cultivators in Nevada, USA who were already provided fertigation solutions customers of GFS. Moreover, design proposals and sales leads at GFS progressed well with several GFS customers confirming readiness to proceed in Q1 and Q2 2019. At that time, most of GFS's sales leads were from existing clients and established license holders within Nevada, USA. However, post quarter-end, GFS provided proposals for three RotoGro sales leads in Canada and others in California, USA and Michigan, USA.

GFS continued to execute throughout Q1 2019, securing more than AUD\$500,000.00 of new sales orders during the quarter from both internal and external sales leads. The GFS and RotoGro sales teams collaborated on sales leads, successfully securing technology and fertigation sales with several RotoGro customers, including Oakum and Polaris Wellness Centre LLC, sales order for which account for more than AUD \$300,000.

**Roto-Gro Inc.**

During the year ended 30 June 2019, the group agreed to acquire all of the issued and outstanding shares in the capital stock of Roto-Gro Inc., a company incorporated pursuant to the laws of the Province of Ontario which owns all of the issued share capital in various operating companies which own the intellectual property (including patents, patents-pending and trademarks) for the RotoGro Systems, the proprietary iGrow® growing management software, the manufacturing equipment and parts inventories, and the leasehold interest in the RotoGro Facility. The consideration for the share purchase was 10,000,000 fully paid ordinary shares in Roto-Gro International Limited and no more than 18,372,720 performance shares (each converting to one fully paid ordinary share upon satisfying revenue-based performance milestones).

The purpose of this acquisition was to provide the group ownership and control of exclusive rights to all orders and growing ownership opportunities in perishable foods, pharmaceuticals, nutraceuticals and all other growing purposes; such rights are in addition to the rights pertaining to lawful cannabis which the group acquired from Roto-Gro Technologies Inc. prior to its IPO in 2017.

In Q1 2019, shareholder approval was given for the acquisition at the group's annual general meeting on 28 February 2019. The group completed the acquisition of Roto-Gro Inc. and its subsidiaries: Roto-Gro IP Inc. (which holds all intellectual property including patents & patents pending in the stackable rotary hydroponic garden space, and proprietary iGrow® growing management software) and Roto-Gro Technologies Inc. (which owns the stock, plant and equipment to manufacture the Roto-Gro Systems).

### **Design Services, Research & Development**

The group completed the construction and installation of its state-of-the-art laboratory located at the RotoGro Facility in Q4 2018 (the "**Laboratory**"). The Laboratory is designed to support the ongoing growing trials at the RotoGro Facility, focusing on enhancing yields and optimising operational costs.

The lawful cannabis and perishable food trials continued throughout the financial year. Efforts focused on financial analysis of water and nutrient consumption, as well as the operational costs of varying environmental controls. In addition, RotoGro's Plant Scientists have studied various light sources and intensities. The group also commenced trials at the beginning of Q2 2019 of a new tray design developed by the group's engineering team for the cultivation of strawberries.

In Q2 2019, RotoGro's Research Team made significant revisions to our proprietary iGrow software. The team established new grow scheduling modules which integrate control of the entire growroom with the feed system for RotoGro's fertigation system.

The results of the lawful cannabis trials exceeded expectations, with each RotoGro System consistently yielding 7–9 lbs (3-4kg) of dry final cannabis flower product per sixty-day cycle. The perishable food cultivation trials provided similarly remarkable results regarding crop density, yield and cycle times.

The group's Design and Innovation team continue their engineering efforts towards a production-ready fully automated perishable food urban farming facility. These efforts draw on the group's existing patented and patent-pending designs whilst seamlessly integrating established industry-standard equipment for seeding, planting, harvesting and packing of the final product for retail sale. The group's innovative design accommodates a range of grow mediums which allows our partners and customers to vary their growing mediums, nutrients and water requirements depending on the desired cultivated product.

### **Dual Listing on the Canadian Securities Exchange**

In Q1 2019, the group initiated the process to apply for a dual listing on the Canadian Securities Exchange (the "**CSE**") to complement its existing listings on the Australian Securities Exchange and the Frankfurt Stock Exchange.

In Q2 2019, the group retained Wildeboer Dellelce LLP, a prominent Canadian law firm specialising in public company law and recognized as a leader in the cannabis space, to lead the dual listing. The CSE listing, planned as a non-offering compliance listing, will provide exposure to the largest capital market for cannabis-focused companies globally and facilitate valuation comparisons amongst the group's Canadian-listed peers. The group continues to work alongside Wildeboer Dellelce LLP and the Ontario Securities Commission to complete its dual listing, which is expected to be finalized in Q4 2019.

### **Capital Raises:**

In Q1 2019, the group received firm commitments from institutional and sophisticated investors for a capital raise, following which the group then undertook an oversubscribed capital raise on the ASX from institutional and sophisticated investors for AUD \$3.58M.

### **Board and Management Changes (post year-end)**

The group undertook Board and Management changes to position the group to execute on the current strategic objectives and planned growth. The Management changes are internal promotions which solidify the executive team and provide autonomy to execute on the Board-approved strategy

### **Significant changes in the state of affairs**

On 2 July 2018 the company through its wholly-owned subsidiary, Global Fertigation Solutions Inc. (GFS), completed the acquisition of the fertigation assets and ongoing contracts of Hanson's Water Treatment Inc. through the issue of 5,000,000 ordinary fully paid shares.

The company also issued contingent consideration consisting of:

- 1,000,000 Class A Performance Shares if EBITDA of \$2 million is earned no later than 2/7/2020
- 1,000,000 Class B Performance Shares if EBITDA of \$4 million is earned no later than 2/7/2021
- 1,000,000 Class C Performance Shares if EBITDA of \$6 million is earned no later than 2/7/2022
- 2,000,000 Class D Performance Shares if EBITDA of \$10 million is earned no later than 02/07/2023

On 9 July 2018 the company completed dual listing on Frankfurt Stock Exchange.

**Roto-Gro International Limited**  
**Directors' report**  
**30 June 2019**

On 6 August 2018, the company through its wholly-owned subsidiary, RotoGro World Wide (Canada) Inc., signed a Share Purchase Agreement ("SPA") to acquire Roto-Gro Inc, which owns Roto-Gro IP Inc (which holds all intellectual property including patents & patents pending in the stackable rotary hydroponic garden space, and proprietary iGrow® growing management software) and Roto-Gro Technologies Inc (which owns the stock, plant & equipment to manufacture the Roto-Gro systems) (together the "Target Group").

The company has agreed to an upfront acquisition consideration of ten million (10 million) fully paid ordinary shares in the share capital of RotoGro and, 18,372,720 performance shares which convert to ordinary shares in two equal tranches of 9,186,360 shares on the achievement of AUD \$5 million in revenue and AUD \$10 million (cumulative) in revenue generated by the RotoGro Group (including RotoGro World Wide (Canada) Inc. and the Target Group) from orders in the perishable foods space (within 18 and 30 months respectively). The Target Group is purchased on a "nil asset/nil liability basis" and the number of performance shares to be issued may reduce depending upon whether at completion the Target Group has net liabilities.

On 24 August 2018, the company through its wholly-owned subsidiary, RotoGro World Wide (Canada) Inc., entered into a Heads of Agreement with Freshero Pty Ltd ("Freshero") pertaining to a joint venture involving the purchase and sale of Roto-Gro rotational hydroponic garden Systems and services (the "HOA").

The HOA provided for an initial testing period of 120 days commencing October 1, 2018 to allow the parties to share growing knowhow and to commence the cultivation of key product lines at the company's research and development grow rooms in Caledon, Ontario Canada. During the period of training and testing, the parties will collaborate on key terms of a definitive joint venture agreement which will also include a joint business plan and facility design for Freshero's first urban farming facility.

Settlement of the formal joint venture agreement is conditional upon due diligence being completed to the parties' mutual satisfaction, the parties signing a definitive joint venture agreement, Freshero providing a business plan acceptable to RotoGro, Freshero entering an agreement with a wholesale or retail partner, and an initial minimum order of 100 RotoGro rotational hydroponic garden systems during the training and testing period. The proposed price to be paid for indoor vertical farming facilities and subject to refinement during the design phase, however the order for the 100 units and related fertigation systems is anticipated to be between approximately C\$1,050,000 and C\$1,500,000 (depending upon the size and configuration of the units).

On 31 August 2018, the company entered into a variation agreement to extend the end date for issue of the performance shares (which remain subject to shareholder approval) to 31 December 2018 and amend the performance share milestones to:

- 1,000,000 Shares issued on achievement of AUD \$2,000,000 EBITDA within 24 months of the transaction completing;
- 1,000,000 Shares issued on achievement of AUD \$4,000,000 EBITDA within 36 months of the transaction completing;
- 1,000,000 Shares issued on achievement of AUD \$6,000,000 EBITDA within 48 months of the transaction completing;
- 2,000,000 Shares issued on achievement of AUD \$10,000,000 EBITDA within 60 months of the transaction completing.

On 28 February 2019 Julian Atkinson resigned as Non-Executive Director and Nathan Lude was appointed as Non-Executive Director.

On 24 April 2019 the company announced the completion of an oversubscribed \$3,581,766 institutional placement, issuing 16,658,380 ordinary shares at an issue price of \$0.21.

On 30 June 2019 the company changed its Board and Management, with the resignation of Nathan Lude and David Palumbo as Non-Executive Directors and appointment of Terry Gardiner and Jamie Myers as Non-Executive Directors.

Also on this date Michael Carli and Michael Slater changed to Non-Executive Directors, Adam Clode was appointed as Chief Executive Officer (effective 1 July), and Michael Di Tommaso was appointed Executive Director and Chief Operating Officer

There were no other significant changes in the state of affairs of the consolidated entity during the financial year.

**Matters subsequent to the end of the financial year**

On 1 July 2019 Roto-Gro International Limited announced the appointment of Mr Adam Clode as Chief Executive Officer. On this date Roto-Gro International Limited also announced the resignation of Mr David Palumbo and Mr Nathan Lude as Non-Executive Directors.

**Roto-Gro International Limited**  
**Directors' report**  
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On 2 July 2019 Roto-Gro International Limited announced the expiry of 250,000 unquoted options, due for expiry on 30 June 2019.

On 17 July 2019 Roto-Gro International Limited announced the appointment of Ms Melanie Leydin as the Chief Financial Officer.

On 15 August 2019 Roto-Gro International Limited announced issue of 5,000,000 options and 8,000,000 performance rights expiring on various dates from 31 December 2020 to 31 December 2022 to Adam Clode, Chief Executive Officer.

No other matter or circumstance has arisen since 30 June 2019 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

**Likely developments and expected results of operations**

Information on likely developments in the operations of the consolidated entity and the expected results of operations have not been included in this report because the Board believe it would be likely to result in unreasonable prejudice to the consolidated entity.

**Environmental regulation**

The Board are mindful of the regulatory regime in relation to the impact of the organisation's activities on the environment. There have been no known breaches of any environmental regulation by the company during the financial year

**Information on directors**

Name:	Mr Michael Carli
Title:	Non-Executive Chairman
Experience and expertise:	Mr. Carli is a highly experienced lawyer specialising in corporate, commercial and intellectual property law for more than 30 years in the Greater Toronto Area, Canada. Mr. Carli holds a Bachelor of Arts degree from York University and a Juris Doctor degree from the University of Western Ontario Faculty of Law. Mr. Carli is currently a Director of Easter Seals Ontario, a charity assisting children with physical disabilities, and was previously Chairman of Villanova College, a private secondary school in King City, Ontario. He is a member of various professional organizations including the Law Society of Ontario, the American Bar Association and the Intellectual Property Institute of Canada. Mr. Carli has played an integral role in RotoGro since its inception in 2015, including its successful Initial Public Offering in February 2017 and leading the company to date as Managing Director. He brings great leaderships qualities to the RotoGro Team and a balanced approach to the company's ongoing commercialisation plans.
Other current directorships:	None
Former directorships (last 3 years):	None
Interests in shares:	2,425,000 ordinary shares
Interests in rights:	911,250 performance shares

**Roto-Gro International Limited**  
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Name: Mr Michael Slater  
Title: Non-Executive Director  
Experience and expertise: Mr Slater holds a Full Technology Certificate in precision and mechanical engineering. Mr Slater has had extensive experience in the United Kingdom, Denmark and Canada in domestic and international sales and marketing of precision machine tools and engineering. In 1982 he was appointed Vice President of Elliot Machinery in Toronto, a division of a publicly traded company. In 1991, he became the President of a private corporation manufacturing material handling and lifting equipment. He remained a senior staff member until 2009 and has subsequently held positions of officer and director of a publicly traded Namibian based copper mining and exploration company. Mr Slater will be responsible for production, production support and R&D.

Other current directorships: None  
Former directorships (last 3 years): None  
Interests in shares: None  
Interests in options: None

Name: Mr Michael Di Tommaso  
Title: Executive Director and Chief Operating Officer  
Experience and expertise: Mr. Di Tommaso is an executive specialising in Canada's evolving cannabis legislation. Mr. Di Tommaso holds a Bachelor of Arts degree in Criminal Justice and a Juris Doctor degree from the University of Ottawa Faculty of Law. He started his legal career in criminal and regulatory law before moving to the burgeoning lawful cannabis sector. Mr. Di Tommaso has hands-on experience in the contractual, legal and regulatory compliance for lawful cannabis licensing, providing him with an in-depth knowledge of the regulatory and operational requirements for the cultivation, processing, and sale of lawful cannabis. Mr. Di Tommaso started his role at RotoGro in 2018 as Operations Manager - Cultivation and now takes on the expanded role of Executive Director and Chief Operations Officer. His attention to corporate governance and passion for legal process provide a sound base for leading the operational aspects of the business as the company fulfils the aspirations of cultivation of lawful cannabis and fresh produce.

Other current directorships: None  
Former directorships (last 3 years): None  
Interests in shares: 300,000 ordinary shares  
Interests in options: None

Name: Mr Terry Gardiner  
Title: Non-Executive Director  
Experience and expertise: Mr. Terry Gardiner has more than 20 years' experience in capital markets, stockbroking and derivatives trading including numerous years trading in equities. Mr. Gardiner is currently a Director of the stockbroking firm Barclay Wells Limited and a Non-executive Director of Cazaly Resources Limited and Galan Lithium Limited. Mr. Gardiner was an integral contributor to RotoGro's successful IPO and has been a valuable adviser to the company over the past three years. The company welcomes his addition to the Board as we move forward in executing the company's strategy driving shareholder value.

Other current directorships: Cazaly Resources Limited (ASX:CAZ) and Galan Lithium Limited (ASX:GLN)  
Former directorships (last 3 years): None  
Interests in shares: 98,054 ordinary shares  
Interests in options: None  
Interests in rights: 225,000 Performance Rights

**Roto-Gro International Limited**  
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Name: Mr Jamie Myers  
Title: Non-Executive Director  
Experience and expertise: Mr. Jamie Myers has extensive experience in financial services, specifically in equity advisory, funds management and corporate finance. He is currently an Associate Director with Baker Young Stockbrokers in Adelaide and previously co-founded Northern Territory based stockbroking firm, iiZen Equities Pty Ltd which was bought out in 2011.  
Mr. Myers has been a valuable external adviser to the company over the past twelve months and the company welcomes his addition to the Board.

Other current directorships: None  
Former directorships (last 3 years): None  
Interests in shares: 100,000 ordinary shares  
Interests in options: None

'Other current directorships' quoted above are current directorships for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

'Former directorships (last 3 years)' quoted above are directorships held in the last 3 years for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

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**Company secretary**  
Mr David Palumbo

Mr Palumbo is a Chartered Accountant with over thirteen years' experience in the accounting and financial reporting of ASX listed and unlisted companies, which includes five years as an external auditor. He provides corporate advisory and financial management advice and specialises in corporate compliance, statutory reporting and financial accounting services. Mr Palumbo is currently a non-executive director and company secretary for ASX listed Krakatoa Resources Limited and company secretary for QEM Ltd as well a number of unlisted public companies.

**Meetings of directors**

The number of meetings of the company's Board of Directors ('the Board') held during the year ended 30 June 2019, and the number of meetings attended by each director were:

	Full Board		Nomination and Remuneration Committee		Audit and Risk Committee	
	Attended	Held	Attended	Held	Attended	Held
Michael Carli	12	13	-	-	-	-
Michael Slater	12	13	-	-	-	-
David Palumbo	13	13	-	-	-	-
Julian Atkinson	10	10	-	-	-	-
Nathan Lude	3	3	-	-	-	-

Held: represents the number of meetings held during the time the director held office.

**Remuneration report (audited)**

The remuneration report details the key management personnel remuneration arrangements for the consolidated entity, in accordance with the requirements of the Corporations Act 2001 and its Regulations.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including all directors.

The remuneration report is set out under the following main headings:

- Principles used to determine the nature and amount of remuneration
- Details of remuneration
- Service agreements
- Share-based compensation
- Additional information
- Additional disclosures relating to key management personnel

***Principles used to determine the nature and amount of remuneration***

The objective of the consolidated entity's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with the achievement of strategic objectives and the creation of value for shareholders, and it is considered to conform to the market best practice for the delivery of reward. The Board ensures that executive reward satisfies the following key criteria for good reward governance practices:

- competitiveness and reasonableness
- acceptability to shareholders
- performance linkage / alignment of executive compensation
- transparency

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Given the small size of the Board (five directors), it was not considered practical to establish a committee of the Board as a Remuneration Committee. Accordingly the full Board is responsible for determining and reviewing compensation arrangements for the directors and executives. Any Director with a personal interest in a remuneration matter is excused from participating in those discussions and resulting decisions. It is the intention of the Board to establish a Remuneration Committee once the size of the group increases.

The Board assesses the appropriateness of the nature and amount of remuneration of executives on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality director and executive team.

The reward framework is designed to align executive reward to shareholders' interests. The Board have considered that it should seek to enhance shareholders' interests by:

- having economic profit as a core component of plan design
- focusing on sustained growth in shareholder wealth, consisting of dividends and growth in share price, and delivering constant or increasing return on assets as well as focusing the executive on key non-financial drivers of value
- attracting and retaining high calibre executives

Additionally, the reward framework should seek to enhance executives' interests by:

- rewarding capability and experience
- reflecting competitive reward for contribution to growth in shareholder wealth
- providing a clear structure for earning rewards

In accordance with best practice corporate governance, the structure of non-executive director and executive director remuneration is separate.

#### *Non-executive directors remuneration*

##### Objective

The Board aims to set aggregate remuneration at a level that provides the group with the ability to attract and retain directors of the highest calibre, whilst incurring a cost that is acceptable to shareholders.

##### Structure

The company's Constitution specify that the aggregate remuneration of non-executive directors shall be determined from time to time by a general meeting. An amount not exceeding the amount determined is then divided between the directors as agreed. The maximum currently stands at \$500,000 per annum. The remuneration of non-executive directors for the financial year ended 30 June 2019 is detailed in the table below. As non-executive director(s) are not expected to be involved in the performance of the company to the same degree as executive director(s) it is not considered appropriate for their remuneration to be dependent on the satisfaction of performance criteria.

#### *Executive remuneration*

The consolidated entity aims to reward executives based on their position and responsibility, with a level and mix of remuneration which has both fixed and variable components.

The executive remuneration and reward framework has four components:

- base pay and non-monetary benefits
- short-term performance incentives
- share-based payments
- other remuneration such as superannuation and long service leave

The combination of these comprises the executive's total remuneration.

Fixed remuneration, consisting of base salary, superannuation and non-monetary benefits, are reviewed annually by the Nomination and Remuneration Committee based on individual and business unit performance, the overall performance of the consolidated entity and comparable market remunerations.

Executives may receive their fixed remuneration in the form of cash or other fringe benefits (for example motor vehicle benefits) where it does not create any additional costs to the consolidated entity and provides additional value to the executive.

Performance based short-term incentives ('STI') may be provided to executives to align the targets of the business with the targets of those executives responsible for meeting those targets

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The long-term incentives ('LTI') include long service leave and share-based payments. Shares and options may be awarded to executives based on long-term incentive measures including increasing shareholder value. Share based LTIs issued to an Executive Director are subject to shareholder approval. The Board reviewed the long-term equity-linked performance incentives specifically for executives during the year ended 30 June 2019.

*Use of remuneration consultants*

During the financial year ended 30 June 2019, the company did not engage the services of independent remuneration consultants to review its existing remuneration policies and provide recommendations on how to improve both the STI and LTI programs (2018: NIL).

*Voting and comments made at the company's 2018 Annual General Meeting ('AGM')*

At the 2018 AGM, 99.97% of the votes received supported the adoption of the remuneration report for the year ended 30 June 2018. The company did not receive any specific feedback at the AGM regarding its remuneration practices.

**Details of remuneration**

*Amounts of remuneration*

Details of the remuneration of key management personnel of the consolidated entity are set out in the following tables.

The key management personnel of the consolidated entity consisted of the following directors of Roto-Gro International Limited:

- Michael Carli (Non-Executive Chairman)
- Michael Slater (Non-Executive Director)
- David Palumbo (Non-Executive Director) (resigned 30 June 2019)
- Julian Atkinson (Non-Executive Director) (appointed 28 February 2019)
- Nathan Lude (Executive Director) (appointed 28 February 2019, resigned 30 June 2019)
- Michael Di Tommaso (Executive Director and Chief Operations Officer) (appointed 30 June 2019)
- Terry Gardiner (Non-Executive Director) (appointed 30 June 2019)
- Jamie Myers (Non-Executive Director) (appointed 30 June 2019)

And the following person:

- Adam Clode (General Manager) (appointed as Chief Executive Officer on 1 July 2019)

	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments	Total
	Cash salary and fees	Cash bonus	Non-monetary	Super-annuation	Long service leave	Equity-settled	
<b>2019</b>	\$	\$	\$	\$	\$	\$	\$
<i>Non-Executive Directors:</i>							
David Palumbo*	40,000	-	-	-	-	-	40,000
Julian Atkinson**	32,000	-	-	-	-	-	32,000
<i>Executive Directors:</i>							
Michael Carli	132,797	-	-	-	-	-	132,797
Michael Slater	72,656	-	-	-	-	-	72,656
Nathan Lude***	16,000	-	-	1,520	-	-	17,520
<i>Other Key Management Personnel:</i>							
Adam Clode****	291,464	-	-	-	-	-	291,464
	<u>584,917</u>	-	-	<u>1,520</u>	-	-	<u>586,437</u>

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- \* Mr Palumbo resigned as a Director 30 June 2019.  
\*\* Mr Atkinson resigned as a Director on 28 February 2019.  
\*\*\* Mr Lude was appointed as a Director on 28 February 2019 and resigned as a Director on 30 June 2019.  
\*\*\*\* Mr Clode was appointed as a Chief Executive Officer on 1 July 2019.

	Short-term benefits			Post-employment benefits		Share-based payments	Total
	Cash salary and fees	Consulting Fees	Non-monetary	Super-annuation	Termination Payments	Options	
2018	\$	\$	\$	\$	\$	\$	\$
<i>Non-Executive Directors:</i>							
David Palumbo***	40,000	-	-	-	-	-	40,000
Julian Atkinson*	19,429	-	-	-	-	42,018	61,447
Stephen Brockhurst**	23,973	-	-	-	-	-	23,973
<i>Executive Directors:</i>							
Michael Carli	130,436	-	-	5,158	-	-	135,594
Michael Slater	49,452	15,267	-	-	-	-	64,719
	<u>263,290</u>	<u>15,267</u>	<u>-</u>	<u>5,158</u>	<u>-</u>	<u>42,018</u>	<u>325,733</u>

- \* Mr Atkinson was appointed as a Director on 5 February 2018.  
\*\* Mr Brockhurst resigned as a Director on 5 February 2018.  
\*\*\* Director fees are paid to Mining Corporate Pty Ltd.

The proportion of remuneration linked to performance and the fixed proportion are as follows:

Name	Fixed remuneration		At risk - STI		At risk - LTI	
	2019	2018	2019	2018	2019	2018
<i>Non-Executive Directors:</i>						
David Palumbo	100%	100%	-	-	-	-
Julian Atkinson	100%	32%	-	-	-	68%
Nathan Lude	100%	-	-	-	-	-
<i>Executive Directors:</i>						
Michael Carli	100%	100%	-	-	-	-
Michael Slater	100%	100%	-	-	-	-
<i>Other Key Management Personnel:</i>						
Adam Clode	100%	-	-	-	-	-

**Service agreements**

**Michael Carli**

Mr Michael Carli has worked for the group in an executive capacity as Managing Director since his appointment on 16 August 2016. Under the terms of the executive agreement, Mr Carli's remuneration package is currently CAD 48,000 (\$50,689) per annum. Mr Carli is also employed as the Chief Executive Officer and President of Roto-Gro World Wide (Canada) Inc (RWWC). Mr Carli's remuneration package for this role is CAD 72,000 (\$76,034) per annum. Mr Carli's employment agreement with RWWC may be terminated voluntarily by providing four weeks written notice. Mr Carli's employment with RWWC may be terminated by Roto-Gro International Limited without cause by providing six months written notice. In the event of termination without cause by Roto-Gro International Limited, Mr Carli is entitled to receive three months base salary as a termination severance payment, payable within 7 days after the date of termination. The company may otherwise terminate his employment immediately for cause (e.g. serious misconduct). In the event of a change of control of Roto-Gro International Limited, Mr Carli may within 30 days of learning of the change of control give notice of his intention to leave as an employee and is entitled to a Severance payment equal to three months of base salary, in addition to any unpaid salary and bonus remuneration and any other entitlement owing.

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Michael Slater

Appointment of executive director Mr Michael Slater is under the terms of a service agreement with the group. The engagement has no fixed term but ceases on his resignation or removal as a director in accordance with the Corporations Act 2001. Mr Slater is currently entitled to receive directors' fees of CAD 48,000 (\$50,689) per annum. Mr Slater is also employed as a production manager for RWWC on an as needed basis and is being paid a rate of CAD 25 (\$26.40) per hour. Mr Slater's employment agreement with RWWC may be terminated voluntarily by providing four weeks written notice. Mr Slater's employment with RWWC may be terminated by Roto-Gro International Limited without cause in accordance with the relevant statutory employment standards. The company may otherwise terminate his employment immediately for cause (e.g. serious misconduct).

David Palumbo

Mr David Palumbo's role as a non-executive director is formalised in the form of a service agreement with the group. The engagement has no fixed term but ceases on his resignation or removal as a director in accordance with the Corporations Act 2001. Mr Palumbo is currently entitled to receive directors' fees of \$40,000 per annum.

Julian Atkinson (resigned 28 February 2019)

Appointment of non-executive director Mr Julian Atkinson is formalised in the form of a service agreement with the group. The engagement has no fixed term but ceases on his resignation or removal as a director in accordance with the Corporations Act 2001. Mr Atkinson is currently entitled to receive directors' fees of \$48,000 per annum and received 250,000 options exercisable at \$0.70 on or before 30 June 2019 on his appointment. These options expired unexercised on 30 June 2019.

Nathan Lude (appointed 28 February 2019, resigned 30 June 2019)

Appointment of non-executive director Mr Nathan Lude was formalised in the form of a employment agreement with the group. The engagement has no fixed term but ceases on his resignation or removal as a director in accordance with the Corporations Act 2001. Mr Lude is currently entitled to receive directors' fees of \$48,000 per annum plus super.

Adam Clode (appointed 1 July 2019 as Chief Executive Officer)

The following are the principal terms of the CEO Agreement:

1. Commencement date: The Agreement commences effective as of July 1, 2019;
2. Term: The Agreement continues until termination in accordance with the Agreement;
3. Termination: The Agreement terminates immediately for cause; without cause by the company on 6 months' written notice; and by Mr. Clode on 4 months' written notice;
4. Termination Pay: The remuneration payable to Mr. Clode on termination, if any, is limited to an amount calculated in accordance with section 200G of the Corporations Act 2001 (Cth);
5. Change of Control: In the event of a Change of Control in the company, Mr. Clode will receive a lump sum payment equivalent to 12 month's Base Salary and the full value of any performance bonuses shall be deemed to be fully vested (provided that such value together with all other remuneration paid to Mr. Clode does not exceed the amount calculated pursuant to section 200G of the Corporations Act 2001 (Cth));
6. Base salary: CAD\$216,000.00;
7. Commencement options: 2,500,000 unquoted options in RGI striking at \$0.3225 with two-year expiry and 2,500,000 unquoted options in RGI striking at \$0.4300 with three-year expiry;

**Roto-Gro International Limited**  
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8. Performance-based bonuses associated with RGI's revenue and growth:

i) The company to secure A\$5,000,000 in cumulative contracted new sales and existing revenues &/or royalties; derived from all subsidiaries between the date of this Agreement and December 31, 2020.

Consideration to be paid: 1,000,000 performance rights in RGI converting to Shares.

ii) The company to secure A\$10,000,000 in cumulative contracted new sales and existing revenues &/or royalties; derived from all subsidiaries between the date of this Agreement and December 31, 2021.

Consideration to be paid: 1,000,000 performance rights in RGI converting to Shares.

iii) The company to secure A\$20,000,000 in cumulative contracted new sales and existing revenues &/or royalties; derived from all subsidiaries between the date of this Agreement and December 31, 2022.

Consideration to be paid: 2,000,000 performance rights in RGI converting to Shares.

iv) Finalisation of the company's first joint venture perishable food / fresh produce agreement leading to first orders of no less than 100 8' Hydroponic Rotational Garden and future equity distribution or royalty payments between the date of this Agreement and December 31, 2020.

Consideration to be paid: 1,000,000 performance rights in RGI converting to Shares.

v) Acquisition of an industry synergistic opportunity or strategic partnership in a related market which includes, perishable food, lawful cannabis, pharmaceutical, nutraceutical, growing management services, nutrients, tissue culture (micropropagation) or other supporting faculty of hydroponic growing between the date of this Agreement and December 31, 2021.

Consideration to be paid: 1,000,000 performance rights in RGI converting to Shares.

vi) Development of the first lawful cannabis production facility owned by the company (or an entity such as a partnership or joint venture of which the company owns no less than 50% of interest) leading to first revenues of the partnership or joint venture from the sale of lawful cannabis between the date of this Agreement and December 31, 2022 of no less than AUD\$10,000,000.00.

Consideration to be paid: 2,000,000 performance rights in RGI converting to Shares.

**Share-based compensation**

*Issue of shares*

There were no shares issued to directors and other key management personnel as part of compensation during the year ended 30 June 2019.

*Options*

There were no options over ordinary shares issued to directors and other key management personnel as part of compensation that were outstanding as at 30 June 2019.

There were no options over ordinary shares granted to or vested by directors and other key management personnel as part of compensation during the year ended 30 June 2019.

*Performance rights*

There were no performance rights over ordinary shares issued to directors and other key management personnel as part of compensation that were outstanding as at 30 June 2019.

There were no performance rights over ordinary shares granted to or vested by directors and other key management personnel as part of compensation during the year ended 30 June 2019.

**Additional information**

The earnings of the consolidated entity for the four years to 30 June 2019 are summarised below:

	2019	2018	2017	2016
	\$	\$	\$	\$
Sales revenue	1,139,840	464,055	3,276	-
EBITDA	(5,425,860)	(2,728,708)	(843,156)	(587,094)
Loss before income tax	(6,171,841)	(3,191,738)	(1,011,923)	(587,094)
Loss after income tax	(6,171,841)	(3,191,738)	(1,011,923)	(587,094)

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The factors that are considered to affect total shareholders return ('TSR') are summarised below:

	2019	2018	2017	2016
Share price at financial year end (\$)	0.16	0.36	0.35	-
Basic earnings per share (cents per share)	(6.13)	(3.82)	(2.37)	(4.56)

**Additional disclosures relating to key management personnel**

*Shareholding*

The number of shares in the company held during the financial year by each director and other members of key management personnel of the consolidated entity, including their personally related parties, is set out below:

	Balance at the start of the year	Received as part of remuneration	Additions	Disposals/ other	Balance at the end of the year
<i>Ordinary shares</i>					
Michael Carli	2,425,000	-	-	-	2,425,000
David Palumbo	75,000	-	-	-	75,000
Adam Clode	375,000	-	-	-	375,000
Michael Di Tommaso*	-	-	-	300,000	300,000
Terry Gardiner*	-	-	-	98,054	98,054
Jamie Myers*	-	-	-	100,000	100,000
	<u>2,875,000</u>	<u>-</u>	<u>-</u>	<u>498,054</u>	<u>3,373,054</u>

\* Michael Di Tommaso Terry Gardiner and Jamie Myers were appointed 30 June 2019, the other additions above reflect the shareholding on this date.

*Option holding*

The number of options over ordinary shares in the company held during the financial year by each director and other members of key management personnel of the consolidated entity, including their personally related parties, is set out below:

	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
<i>Options over ordinary shares</i>					
Julian Atkinson*	250,000	-	-	(250,000)	-
	<u>250,000</u>	<u>-</u>	<u>-</u>	<u>(250,000)</u>	<u>-</u>

\* Julian Atkinson resigned as director on 28 February 2019.

*Performance shares*

The number of performance shares held during the financial year by each director and other members of key management personnel of the consolidated entity, including their personally related parties, is set out below:

	Balance at start of year	Additions	Disposals / other	Balance at end of year
Michael Carli	1,265,625	-	(354,375)	911,250
Terry Gardiner*			225,000	225,000
	<u>1,265,625</u>	<u>-</u>	<u>(354,375)</u>	<u>911,250</u>
			<u>225,000</u>	<u>225,000</u>

Terry Gardiner was appointed 30 June 2019, the other additions above reflect the performance rights held on this date.

*Loans to key management personnel and their related parties*

There are no loans to directors or executives at reporting date (30 June 2018: Nil).

*Other transactions with key management personnel and their related parties*

There are no other transactions with directors or executives as at reporting date (30 June 2018: Nil).

**This concludes the remuneration report, which has been audited.**

**Roto-Gro International Limited**  
**Directors' report**  
**30 June 2019**

**Shares under option**

Unissued ordinary shares of Roto-Gro International Limited under option at the date of this report are as follows:

Grant date	Expiry date	Exercise price	Number under option
15 January 2018	15 January 2020	\$0.65	2,950,000
15 August 2019	15 August 2021	\$0.32	2,500,000
15 August 2019	15 August 2022	\$0.43	<u>2,500,000</u>
			<u><u>7,950,000</u></u>

No person entitled to exercise the options had or has any right by virtue of the option to participate in any share issue of the company or of any other body corporate.

**Shares under performance rights**

Unissued ordinary shares of Roto-Gro International Limited under performance rights at the date of this report are as follows:

Grant date	Expiry date	Exercise price	Number under rights
6 February 2017	6 June 2020	\$0.00	9,000,000
6 February 2017	6 February 2022	\$0.00	9,000,000
28 February 2019	2 July 2020	\$0.00	1,000,000
28 February 2019	2 July 2021	\$0.00	1,000,000
28 February 2019	2 July 2022	\$0.00	1,000,000
28 February 2019	2 July 2023	\$0.00	2,000,000
28 March 2019	28 September 2020	\$0.00	9,186,360
28 March 2019	28 September 2021	\$0.00	9,186,360
15 August 2019	31 December 2020	\$0.00	1,000,000
15 August 2019	31 December 2021	\$0.00	1,000,000
15 August 2019	31 December 2022	\$0.00	2,000,000
15 August 2019	31 December 2020	\$0.00	1,000,000
15 August 2019	31 December 2021	\$0.00	1,000,000
15 August 2019	31 December 2022	\$0.00	<u>2,000,000</u>
			<u><u>49,372,720</u></u>

No person entitled to exercise the performance rights had or has any right by virtue of the performance right to participate in any share issue of the company or of any other body corporate.

**Shares issued on the exercise of options**

There were no ordinary shares of Roto-Gro International Limited issued on the exercise of options during the year ended 30 June 2019 and up to the date of this report.

**Shares issued on the exercise of performance rights**

There were no ordinary shares of Roto-Gro International Limited issued on the exercise of performance rights during the year ended 30 June 2019 and up to the date of this report.

**Indemnity and insurance of officers**

The company has indemnified the directors and executives of the company for costs incurred, in their capacity as a director or executive, for which they may be held personally liable, except where there is a lack of good faith.

**Roto-Gro International Limited**  
**Directors' report**  
**30 June 2019**

**Indemnity and insurance of auditor**

The company has not, during or since the end of the financial year, indemnified or agreed to indemnify the auditor of the company or any related entity against a liability incurred by the auditor.

**Proceedings on behalf of the company**

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the company, or to intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or part of those proceedings.

**Non-audit services**

The Board is satisfied that the provision of non-audit services during the financial period is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The directors are satisfied that the services disclosed below did not compromise the external auditor's independence for the following reasons:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- the nature of the services provided does not compromise the general principles relating to auditor independence in accordance with APES 110: Code of Ethics for Professional Accountants set by the Accounting Professional and Ethical Standards Board.

During the financial year, \$750 was paid or payable to RSM Australia Partners for non-audit services (2018: \$12,250). Refer to Note 26.

**Auditor's independence declaration**

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out immediately after this directors' report.

**Auditor**

continues in office in accordance with section 327 of the Corporations Act 2001.

This report is made in accordance with a resolution of directors, pursuant to section 298(2)(a) of the Corporations Act 2001.

On behalf of the directors



Michael Carli  
Non-Executive Chairman

30 August 2019

**RSM Australia Partners**

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**AUDITOR'S INDEPENDENCE DECLARATION**

As lead auditor for the audit of the financial report of Roto-Gro International Limited for the year ended 30 June 2019, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

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



RSM AUSTRALIA PARTNERS



TUTU PHONG  
Partner

Perth, WA  
Dated: 30 August 2019

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**Roto-Gro International Limited**  
**Statement of profit or loss and other comprehensive income**  
**For the year ended 30 June 2019**

	Note	Consolidated 2019 \$	2018 \$
<b>Revenue</b>			
Sales revenue	5	1,134,601	458,795
Other income	5	5,239	5,260
<b>Expenses</b>			
Cost of goods sold		(1,181,420)	(287,442)
Design and innovation expense		(631,475)	-
Cultivation costs		(17,759)	-
Business development expense		(206,207)	(190,658)
Operational costs	6	(626,597)	(503,193)
Depreciation expense	14	(105,899)	(23,031)
Amortisation expense	15	(640,081)	(440,000)
Share based payments expense	37	(120,000)	(991,678)
Research and development expenses		(386,340)	(161,543)
Corporate and administration expenses	7	(3,235,606)	(1,058,248)
Other expenses		(160,297)	-
<b>Loss before income tax expense</b>		(6,171,841)	(3,191,738)
Income tax expense	8	-	-
<b>Loss after income tax expense for the year attributable to the owners of Roto-Gro International Limited</b>		(6,171,841)	(3,191,738)
<b>Other comprehensive income</b>			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Foreign currency translation		82,972	25,644
Other comprehensive income for the year, net of tax		82,972	25,644
<b>Total comprehensive income for the year attributable to the owners of Roto-Gro International Limited</b>		(6,088,869)	(3,166,094)
		<b>Cents</b>	<b>Cents</b>
Basic earnings per share	36	(6.13)	(3.82)
Diluted earnings per share	36	(6.13)	(3.82)

*The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes*

**Roto-Gro International Limited**  
**Statement of financial position**  
**As at 30 June 2019**

	Note	Consolidated 2019 \$	2018 \$
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	9	3,008,940	2,843,623
Trade and other receivables	10	289,688	271,043
Inventories	11	868,654	129,926
Other current assets	12	80,630	928,502
<b>Total current assets</b>		<u>4,247,912</u>	<u>4,173,094</u>
<b>Non-current assets</b>			
Other financial assets	13	459,147	383,789
Plant and equipment	14	838,095	298,021
Intangibles	15	18,531,684	10,391,233
<b>Total non-current assets</b>		<u>19,828,926</u>	<u>11,073,043</u>
<b>Total assets</b>		<u>24,076,838</u>	<u>15,246,137</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	16	842,235	673,731
Employee benefits	17	55,307	18,521
Other current liabilities	18	1,145,167	1,125,780
<b>Total current liabilities</b>		<u>2,042,709</u>	<u>1,818,032</u>
<b>Total liabilities</b>		<u>2,042,709</u>	<u>1,818,032</u>
<b>Net assets</b>		<u>22,034,129</u>	<u>13,428,105</u>
<b>Equity</b>			
Issued capital	20	26,893,742	16,181,939
Reserves	21	6,102,983	2,036,921
Accumulated losses		(10,962,596)	(4,790,755)
<b>Total equity</b>		<u>22,034,129</u>	<u>13,428,105</u>

*The above statement of financial position should be read in conjunction with the accompanying notes*

**Roto-Gro International Limited**  
**Statement of changes in equity**  
**For the year ended 30 June 2019**

<b>Consolidated</b>	<b>Issued capital \$</b>	<b>Share Based Payment Reserve \$</b>	<b>Foreign Currency Translation Reserve \$</b>	<b>Accumulated Losses \$</b>	<b>Total equity \$</b>
Balance at 1 July 2017	13,714,841	1,000,000	19,599	(1,599,017)	13,135,423
Loss after income tax expense for the year	-	-	-	(3,191,738)	(3,191,738)
Other comprehensive income for the year, net of tax	-	-	25,644	-	25,644
Total comprehensive income for the year	-	-	25,644	(3,191,738)	(3,166,094)
<i>Transactions with owners in their capacity as owners:</i>					
Contributions of equity, net of transaction costs (note 20)	2,467,098	-	-	-	2,467,098
Share-based payments (note 21)	-	991,678	-	-	991,678
Balance at 30 June 2018	<u>16,181,939</u>	<u>1,991,678</u>	<u>45,243</u>	<u>(4,790,755)</u>	<u>13,428,105</u>

<b>Consolidated</b>	<b>Issued capital \$</b>	<b>Share based payment reserve \$</b>	<b>Foreign currency translation reserve \$</b>	<b>Accumulated losses \$</b>	<b>Total equity \$</b>
Balance at 1 July 2018	16,181,939	1,991,678	45,243	(4,790,755)	13,428,105
Loss after income tax expense for the year	-	-	-	(6,171,841)	(6,171,841)
Other comprehensive income for the year, net of tax	-	-	82,972	-	82,972
Total comprehensive income for the year	-	-	82,972	(6,171,841)	(6,088,869)
<i>Transactions with owners in their capacity as owners:</i>					
Contributions of equity, net of transaction costs (note 20)	10,711,803	-	-	-	10,711,803
Share-based payments (note 21)	-	3,983,090	-	-	3,983,090
Balance at 30 June 2019	<u>26,893,742</u>	<u>5,974,768</u>	<u>128,215</u>	<u>(10,962,596)</u>	<u>22,034,129</u>

*The above statement of changes in equity should be read in conjunction with the accompanying notes*

**Roto-Gro International Limited**  
**Statement of cash flows**  
**For the year ended 30 June 2019**

	Note	Consolidated 2019 \$	2018 \$
<b>Cash flows from operating activities</b>			
Receipts from customers (inclusive of GST)		994,094	458,795
Payments to suppliers and employees (inclusive of GST)		(3,447,776)	(1,911,574)
Payments for product manufacturing		(1,750,092)	(714,151)
Interest received		5,240	5,260
Deposits received		-	1,071,278
		<u>                    </u>	<u>                    </u>
Net cash used in operating activities	35	<u>(4,198,534)</u>	<u>(1,090,392)</u>
<b>Cash flows from investing activities</b>			
Payment for purchase of business, net of cash acquired	31	(23,003)	-
Payments for property, plant and equipment	14	(452,737)	(321,051)
Payments for financial and other assets		(265,945)	(383,789)
		<u>                    </u>	<u>                    </u>
Net cash used in investing activities		<u>(741,685)</u>	<u>(704,840)</u>
<b>Cash flows from financing activities</b>			
Proceeds from issue of shares (net of transaction costs)		5,066,749	2,447,152
		<u>                    </u>	<u>                    </u>
Net cash from financing activities		<u>5,066,749</u>	<u>2,447,152</u>
Net increase in cash and cash equivalents		126,530	651,920
Cash and cash equivalents at the beginning of the financial year		2,843,623	2,165,615
Effects of exchange rate changes on cash and cash equivalents		38,787	26,088
		<u>                    </u>	<u>                    </u>
Cash and cash equivalents at the end of the financial year	9	<u><u>3,008,940</u></u>	<u><u>2,843,623</u></u>

*The above statement of cash flows should be read in conjunction with the accompanying notes*

**Roto-Gro International Limited**  
**Notes to the financial statements**  
**30 June 2019**

**Note 1. General information**

The financial statements cover Roto-Gro International Limited as a consolidated entity consisting of Roto-Gro International Limited and the entities it controlled at the end of, or during, the year. The financial statements are presented in Australian dollars, which is Roto-Gro International Limited's functional and presentation currency.

Roto-Gro International Limited is a listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Level 11  
216 St Georges Terrace  
Perth  
WA 6000

A description of the nature of the consolidated entity's operations and its principal activities are included in the directors' report, which is not part of the financial statements.

The financial statements were authorised for issue, in accordance with a resolution of directors, on 30 August 2019. The directors have the power to amend and reissue the financial statements.

**Note 2. Significant accounting policies**

The principal accounting policies adopted in the preparation of the financial statements are set out either in the respective notes or below. These policies have been consistently applied to all the years presented, unless otherwise stated.

**New or amended Accounting Standards and Interpretations adopted**

The consolidated entity has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

The following Accounting Standards and Interpretations are most relevant to the consolidated entity:

*AASB 9 Financial Instruments*

The group has adopted AASB 9 from 1 July 2018. The standard introduced new classification and measurement models for financial assets. A financial asset shall be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows which arise on specified dates and that are solely principal and interest. A debt investment shall be measured at fair value through other comprehensive income if it is held within a business model whose objective is to both hold assets in order to collect contractual cash flows which arise on specified dates that are solely principal and interest as well as selling the asset on the basis of its fair value. All other financial assets are classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading or contingent consideration recognised in a business combination) in other comprehensive income ('OCI'). Despite these requirements, a financial asset may be irrevocably designated as measured at fair value through profit or loss to reduce the effect of, or eliminate, an accounting mismatch. For financial liabilities designated at fair value through profit or loss, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch). New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity. New impairment requirements use an 'expected credit loss' ('ECL') model to recognise an allowance. Impairment is measured using a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted. For receivables, a simplified approach to measuring expected credit losses using a lifetime expected loss allowance is available.

**Note 2. Significant accounting policies (continued)**

*AASB 15 Revenue from Contracts with Customers*

The group has adopted AASB 15 from 1 July 2018. The standard provides a single comprehensive model for revenue recognition. The core principle of the standard is that an entity shall recognise revenue to depict the transfer of promised goods or services to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard introduced a new contract-based revenue recognition model with a measurement approach that is based on an allocation of the transaction price. This is described further in the accounting policies below. Credit risk is presented separately as an expense rather than adjusted against revenue. Contracts with customers are presented in an entity's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. Customer acquisition costs and costs to fulfil a contract can, subject to certain criteria, be capitalised as an asset and amortised over the contract period.

*Impact of adoption*

AASB 9 and AASB 15 were adopted using the modified retrospective approach and as such comparatives have not been restated. There was no impact of adoption.

**Going concern**

The financial statements have been prepared on the going concern basis, which contemplates continuity of normal business activities and the realisation of assets and discharge of liabilities in the normal course of business.

The consolidated entity incurred a loss of \$6,171,841 and net cash outflow from operating activities of \$4,198,534 for the year ended 30 June 2019.

The Board believe that it is reasonably foreseeable that the consolidated entity will continue as a going concern and that it is appropriate for it to adopt the going concern basis in the preparation of the financial report after consideration of following factors:

- As per the budget for the next financial year, the consolidated entity is expected to earn positive operating results in the next financial year based on achieving its budget;
- As disclosed in note 18 the income received in advance from customers \$1,028,846 is recognised as a current liability as at 30 June 2019 of which no cash outflows are expected to be required to settle this liability, other than the cash outflows that will be incurred as a result of providing the goods to fulfil the contract liabilities. The contract liability will unwind when the goods are delivered by the consolidated entity during the year ended 30 June 2020;
- The consolidated entity has the ability to issue additional equity securities under the Corporations Act 2001 to raise further working capital; and
- The consolidated entity has the ability to curtail corporate and administration expenses and overhead cash outflows as and when required.

**Basis of preparation**

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001, as appropriate for for-profit oriented entities. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB').

*Historical cost convention*

The financial statements have been prepared under the historical cost convention, except for, where applicable, the revaluation of financial assets and liabilities at fair value through profit or loss, financial assets at fair value through other comprehensive income, investment properties, certain classes of property, plant and equipment and derivative financial instruments.

*Critical accounting estimates*

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the consolidated entity's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

**Parent entity information**

In accordance with the Corporations Act 2001, these financial statements present the results of the consolidated entity only. Supplementary information about the parent entity is disclosed in note 30.

**Note 2. Significant accounting policies (continued)**

**Principles of consolidation**

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Roto-Gro International Limited ('company' or 'parent entity') as at 30 June 2019 and the results of all subsidiaries for the year then ended. Roto-Gro International Limited and its subsidiaries together are referred to in these financial statements as the 'consolidated entity'.

Subsidiaries are all those entities over which the consolidated entity has control. The consolidated entity controls an entity when the consolidated entity is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the consolidated entity. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the consolidated entity are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the consolidated entity.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Where the consolidated entity loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The consolidated entity recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

**Foreign currency translation**

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each group entity are expressed in Australian dollars ('\$'), which is the functional currency of the group and the presentation currency for the consolidated financial statements.

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting year, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Nonmonetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at 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 on monetary items are recognised in profit or loss in the year in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- exchange differences on transactions entered into in order to hedge certain foreign currency risks; and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

**Foreign operations**

For the purpose of presenting consolidated financial statements, the assets and liabilities of the group's foreign operations are translated into Australian dollars using exchange rates prevailing at the end of the reporting year. Income and expense items are translated at the average exchange rates for the year, unless exchange rates fluctuated significantly during that year, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate).

**Note 2. Significant accounting policies (continued)**

On the disposal of a foreign operation (i.e. a disposal of the company's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, loss of joint control over a jointly controlled entity that includes a foreign operation, or loss of significant influence over an associate that includes a foreign operation), all of the accumulated exchange differences in respect of that operation attributable to the company are reclassified to profit or loss.

In addition, in relation to a partial disposal of a subsidiary that does not result in the company losing control over the subsidiary, the proportionate share of accumulated exchange differences are reattributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of associates or jointly controlled entities that do not result in the company losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

**Revenue recognition**

The consolidated entity recognises revenue as follows:

*Revenue from contracts with customers*

Revenue is recognised at an amount that reflects the consideration to which the consolidated entity is expected to be entitled in exchange for transferring goods or services to a customer. For each contract with a customer, the consolidated entity: identifies the contract with a customer; identifies the performance obligations in the contract; determines the transaction price which takes into account estimates of variable consideration and the time value of money; allocates the transaction price to the separate performance obligations on the basis of the relative stand-alone selling price of each distinct good or service to be delivered; and recognises revenue when or as each performance obligation is satisfied in a manner that depicts the transfer to the customer of the goods or services promised.

Variable consideration within the transaction price, if any, reflects concessions provided to the customer such as discounts, rebates and refunds, any potential bonuses receivable from the customer and any other contingent events. Such estimates are determined using either the 'expected value' or 'most likely amount' method. The measurement of variable consideration is subject to a constraining principle whereby revenue will only be recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. The measurement constraint continues until the uncertainty associated with the variable consideration is subsequently resolved. Amounts received that are subject to the constraining principle are recognised as a refund liability.

*Sale of goods*

Revenue from the sale of goods is recognised at the point in time when the customer obtains control of the goods, which is generally at the time of delivery.

*Rendering of services*

Revenue from a contract (based on terms of the contract) to provide services is recognised at the point upon delivery of the service to the customer or over time as the services are rendered based on either a fixed price or an hourly rate.

*Interest*

Interest revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

*Other revenue*

Other revenue is recognised when it is received or when the right to receive payment is established.

**Income tax**

The income tax expense (revenue) for the year comprises current income tax expense (income) and deferred tax expense (income).

Current income tax expense charged to the profit or loss is the tax payable on taxable income calculated using applicable income tax rates enacted, or substantially enacted, as at reporting date. Current tax liabilities (assets) are therefore measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

**Note 2. Significant accounting policies (continued)**

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well as unused tax losses. Current and deferred income tax expense (income) is charged or credited directly to equity instead of the profit or loss when the tax relates to items that are credited or charged directly to equity.

Deferred tax assets and liabilities are ascertained based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets also result where amounts have been fully expensed but future tax deductions are available. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates enacted or substantively enacted at reporting date. Their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability. Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Where temporary differences exist in relation to investments in subsidiaries, branches, associates, and joint ventures, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary difference can be controlled and it is not probable that the reversal will occur in the foreseeable future.

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where a legally enforceable right of set-off exists, the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future years in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

**Current and non-current classification**

Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in the consolidated entity's normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is classified as current when: it is either expected to be settled in the consolidated entity's normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

**Investments and other financial assets**

Investments and other financial assets are initially measured at fair value. Transaction costs are included as part of the initial measurement, except for financial assets at fair value through profit or loss. Such assets are subsequently measured at either amortised cost or fair value depending on their classification. Classification is determined based on both the business model within which such assets are held and the contractual cash flow characteristics of the financial asset unless, an accounting mismatch is being avoided.

Financial assets are derecognised when the rights to receive cash flows have expired or have been transferred and the consolidated entity has transferred substantially all the risks and rewards of ownership. When there is no reasonable expectation of recovering part or all of a financial asset, its carrying value is written off.

*Financial assets at fair value through profit or loss*

Financial assets not measured at amortised cost or at fair value through other comprehensive income are classified as financial assets at fair value through profit or loss. Typically, such financial assets will be either: (i) held for trading, where they are acquired for the purpose of selling in the short-term with an intention of making a profit, or a derivative; or (ii) designated as such upon initial recognition where permitted. Fair value movements are recognised in profit or loss.

**Note 2. Significant accounting policies (continued)**

*Financial assets at fair value through other comprehensive income*

Financial assets at fair value through other comprehensive income include equity investments which the consolidated entity intends to hold for the foreseeable future and has irrevocably elected to classify them as such upon initial recognition.

*Financial assets at amortised cost*

A financial asset is measured at amortised cost only if both of the following conditions are met: (i) it is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and (ii) the contractual terms of the financial asset represent contractual cash flows that are solely payments of principal and interest.

*Investments*

Investments includes non-derivative financial assets with fixed or determinable payments and fixed maturities where the consolidated entity has the positive intention and ability to hold the financial asset to maturity. This category excludes financial assets that are held for an undefined period. Investments are carried at amortised cost using the effective interest rate method adjusted for any principal repayments. Gains and losses are recognised in profit or loss when the asset is derecognised or impaired.

*Impairment of financial assets*

The consolidated entity recognises a loss allowance for expected credit losses on financial assets which are either measured at amortised cost or fair value through other comprehensive income. The measurement of the loss allowance depends upon the consolidated entity's assessment at the end of each reporting period as to whether the financial instrument's credit risk has increased significantly since initial recognition, based on reasonable and supportable information that is available, without undue cost or effort to obtain.

Where there has not been a significant increase in exposure to credit risk since initial recognition, a 12-month expected credit loss allowance is estimated. This represents a portion of the asset's lifetime expected credit losses that is attributable to a default event that is possible within the next 12 months. Where a financial asset has become credit impaired or where it is determined that credit risk has increased significantly, the loss allowance is based on the asset's lifetime expected credit losses. The amount of expected credit loss recognised is measured on the basis of the probability weighted present value of anticipated cash shortfalls over the life of the instrument discounted at the original effective interest rate.

For financial assets measured at fair value through other comprehensive income, the loss allowance is recognised within other comprehensive income. In all other cases, the loss allowance is recognised in profit or loss.

**Impairment of non-financial assets**

Goodwill and other intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

**Goods and Services Tax ('GST') and other similar taxes**

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the tax authority.

**Note 2. Significant accounting policies (continued)**

**New Accounting Standards and Interpretations not yet mandatory or early adopted**

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated entity for the annual reporting period ended 30 June 2019. The consolidated entity's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the consolidated entity, are set out below.

**AASB 16 Leases**

This standard is applicable to annual reporting periods beginning on or after 1 January 2019. The standard replaces AASB 117 'Leases' and for lessees will eliminate the classifications of operating leases and finance leases. Subject to exceptions, a 'right-of-use' asset will be capitalised in the statement of financial position, measured at the present value of the unavoidable future lease payments to be made over the lease term. The exceptions relate to short-term leases of 12 months or less and leases of low-value assets (such as personal computers and small office furniture) where an accounting policy choice exists whereby either a 'right-of-use' asset is recognised or lease payments are expensed to profit or loss as incurred. A liability corresponding to the capitalised lease will also be recognised, adjusted for lease prepayments, lease incentives received, initial direct costs incurred and an estimate of any future restoration, removal or dismantling costs. Straight-line operating lease expense recognition will be replaced with a depreciation charge for the leased asset (included in operating costs) and an interest expense on the recognised lease liability (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117. However, EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results will be improved as the operating expense is replaced by interest expense and depreciation in profit or loss under AASB 16. For classification within the statement of cash flows, the lease payments will be separated into both a principal (financing activities) and interest (either operating or financing activities) component. For lessor accounting, the standard does not substantially change how a lessor accounts for leases. The consolidated entity has made an assessment and determined that the impact of this standard will not be material to the financial statements.

**Comparative Information**

Certain balances in statement of profit or loss and other comprehensive income and statement of financial position for the financial year ended 30 June 2018 have been restated for comparative purposes.

**Note 3. Critical accounting judgements, estimates and assumptions**

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

***Impairment of non-financial assets other than goodwill and other indefinite life intangible assets***

The consolidated entity assesses impairment of non-financial assets other than goodwill and other indefinite life intangible assets at each reporting date by evaluating conditions specific to the consolidated entity and to the particular asset that may lead to impairment. If an impairment trigger exists, the recoverable amount of the asset is determined. This involves fair value less costs of disposal or value-in-use calculations, which incorporate a number of key estimates and assumptions.

***Business combinations***

As stated in note 31, business combinations are initially accounted for on a provisional basis. The fair value of assets acquired, liabilities and contingent liabilities assumed are initially estimated by the consolidated entity taking into consideration all available information at the reporting date. Fair value adjustments on the finalisation of the business combination accounting is retrospective, where applicable, to the period the combination occurred and may have an impact on the assets and liabilities, depreciation and amortisation reported.

**Roto-Gro International Limited**  
**Notes to the financial statements**  
**30 June 2019**

**Note 4. Operating segments**

*Identification of reportable operating segments*

The group has identified its operating segments based on the internal reports that are used by the Board (the chief operating decision makers) in assessing performance and in determining the allocation of resources. The Board as a whole will regularly review the identified segments in order to allocate resources to the segment and to assess its performance.

The group operates across the agricultural industry providing technology and cultivation solutions for advanced indoor hydroponic growing applications.

The main geographic areas that the entity operates in are Australia, USA and Canada. The group has operations in USA and Canada. The parent entity is registered in Australia. The group's intangible assets are maintained in Mauritius.

The following tables present revenue, expenditure and certain asset and liability information regarding geographical segments for the years ended 30 June 2019 and 2018:

*Operating segment information*

<b>Consolidated - 2019</b>	Australia \$	Canada \$	Mauritius \$	USA \$	Total \$
<b>Revenue</b>					
Sales to external customers	-	857,553	-	415,496	1,273,049
Intersegment sales	-	(138,448)	-	-	(138,448)
Total sales revenue	-	719,105	-	415,496	1,134,601
Interest income	4,456	783	-	-	5,239
<b>Total revenue</b>	4,456	719,888	-	415,496	1,139,840
<b>EBITDA</b>	(2,588,534)	(2,682,167)	-	(155,160)	(5,425,861)
Depreciation and amortisation	-	(105,899)	(640,081)	-	(745,980)
<b>Loss before income tax expense</b>	(2,588,534)	(2,788,066)	(640,081)	(155,160)	(6,171,841)
Income tax expense					-
<b>Loss after income tax expense</b>					(6,171,841)
<b>Assets</b>					
Segment assets	1,011,714	6,125,981	18,537,036	320,783	25,995,514
Intersegment eliminations					(1,918,676)
<b>Total assets</b>					24,076,838
<b>Liabilities</b>					
Segment liabilities	148,971	11,445,344	46,074	349,132	11,989,521
Intersegment eliminations					(9,946,812)
<b>Total liabilities</b>					2,042,709

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**Note 4. Operating segments (continued)**

<b>Consolidated - 2018</b>	Australia \$	Canada \$	Mauritius \$	Total \$
<b>Revenue</b>				
Sales to external customers	-	458,795	-	458,795
Interest income	201	5,059	-	5,260
<b>Total revenue</b>	<u>201</u>	<u>463,854</u>	<u>-</u>	<u>464,055</u>
<b>EBITDA</b>	201	463,854	-	464,055
Depreciation and amortisation	-	(23,030)	(440,000)	(463,030)
Other expenses	(1,680,022)	(1,512,741)	-	(3,192,763)
<b>Loss before income tax expense</b>	<u>(1,679,821)</u>	<u>(1,071,917)</u>	<u>(440,000)</u>	<u>(3,191,738)</u>
Income tax expense				-
<b>Loss after income tax expense</b>				<u>(3,191,738)</u>
<b>Assets</b>				
Segment assets	2,598,126	2,256,778	10,391,233	15,246,137
<b>Total assets</b>				<u>15,246,137</u>
<b>Liabilities</b>				
Segment liabilities	292,435	1,525,597	-	1,818,032
<b>Total liabilities</b>				<u>1,818,032</u>

*Accounting policy for operating segments*

Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the Chief Operating Decision Makers ('CODM'). The CODM is responsible for the allocation of resources to operating segments and assessing their performance.

**Note 5. Revenue**

	<b>Consolidated 2019 \$</b>	<b>2018 \$</b>
Revenue from contracts with customers		
Sale of goods	<u>1,134,601</u>	<u>458,795</u>
	Consolidation 2019	Consolidation 2018
Other revenue		
Interest income	<u>5,239</u>	<u>5,260</u>
	<b>Consolidated 2019</b>	<b>2018</b>
Disaggregation of revenue		
Roto-Gro unit sales	719,104	458,795
Fertigation sales	415,497	-
<b>Total revenue</b>	<u><u>1,134,601</u></u>	<u><u>458,795</u></u>

For the periods ended 30 June 2019 and 2018, all revenue was recognized when the good or service transferred at a point in time.

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**Note 6. Operational costs**

	<b>Consolidated</b>	
	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>
Employee benefits expense	308,541	370,362
Office lease	274,539	132,831
Other operational costs	43,517	-
	<u>626,597</u>	<u>503,193</u>

**Note 7. Corporate and administrative costs**

	<b>Consolidated</b>	
	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>
Employee benefits expense	575,259	-
Travel and entertainment costs	328,309	114,831
Professional fees	243,784	237,759
Legal expense	187,077	40,520
Consultants – corporate advisory and investor relations	417,351	551,356
Other administration expenses	143,842	113,782
Write off of deposit to Supra THC*	1,339,984	-
	<u>3,235,606</u>	<u>1,058,248</u>

\* During the year, the group paid a deposit relating to the acquisition of Supra THC amounting to \$1,339,984. As the acquisition was not finalised and as the deposit is not refundable it has been written-off to the statement of comprehensive income under corporate and administrative expenses above.

**Note 8. Income tax expense**

	<b>Consolidated</b>	
	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>
<i>Numerical reconciliation of income tax expense and tax at the statutory rate</i>		
Loss before income tax expense	(6,171,841)	(3,191,738)
Tax at the statutory tax rate of 30% (2018: 27.5%)	(1,851,552)	(877,728)
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Non-deductible expenses	555,583	393,711
Temporary differences not brought to account	12,525	(51,062)
Tax losses carried forward	1,283,444	535,079
	<u>-</u>	<u>-</u>
Income tax expense	<u>-</u>	<u>-</u>

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**Note 8. Income tax expense (continued)**

	<b>Consolidated</b>	
	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>
<i>Deferred tax assets not recognised</i>		
Deferred tax assets not recognised comprises temporary differences attributable to:		
Deductible temporary differences	(160,002)	(114,650)
Revenue losses	2,205,853	845,542
	<u>2,045,851</u>	<u>730,892</u>
Total deferred tax assets not recognised	<u>2,045,851</u>	<u>730,892</u>

The above potential tax benefit, which excludes tax losses, for deductible temporary differences has not been recognised in the statement of financial position as the recovery of this benefit is uncertain.

*Availability of Tax Losses*

The availability of the tax losses for future years is uncertain and will be dependent on the company satisfying strict requirements with respect to continuity of ownership and the same business test imposed by income tax legislation. The recoupment of available tax losses as at 30 June 2019 is contingent upon the following:

- (a) the company deriving future assessable income of a nature and of an amount sufficient to enable the benefit from the losses to be realised;
- (b) the conditions for deductibility imposed by income tax legislation continuing to be complied with; and
- (c) there being no changes in income tax legislation which would adversely affect the company from realising the benefit from the losses.

Given the company is currently in a loss making position, a deferred tax asset has not been recognised with regard to unused tax losses, as it has not been determined that the company will generate sufficient taxable profit against which the unused tax losses can be utilised.

**Note 9. Current assets - cash and cash equivalents**

	<b>Consolidated</b>	
	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>
Cash at bank	<u>3,008,940</u>	<u>2,843,623</u>

*Accounting policy for cash and cash equivalents*

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

**Note 10. Current assets - trade and other receivables**

	<b>Consolidated</b>	
	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>
Trade receivables	41,677	-
Other receivables	248,011	271,043
	<u>289,688</u>	<u>271,043</u>

*Accounting policy for trade and other receivables*

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any allowance for expected credit losses. Trade receivables are generally due for settlement within 30 days.

**Note 10. Current assets - trade and other receivables (continued)**

The consolidated entity has applied the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance. To measure the expected credit losses, trade receivables have been grouped based on days overdue.

Other receivables are recognised at amortised cost, less any allowance for expected credit losses.

**Note 11. Current assets - inventories**

	<b>Consolidated</b>	
	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>
Raw materials - at cost	698,493	-
Work in progress - at cost	162,542	-
Finished goods	7,619	129,926
	<u>868,654</u>	<u>129,926</u>

*Accounting policy for inventories*

Raw materials, work in progress and finished goods are stated at the lower of cost and net realisable value on a 'first in first out' basis. Cost comprises of direct materials and delivery costs, direct labour, import duties and other taxes, an appropriate proportion of variable and fixed overhead expenditure based on normal operating capacity, and, where applicable, transfers from cash flow hedging reserves in equity. Costs of purchased inventory are determined after deducting rebates and discounts received or receivable.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

**Note 12. Current assets - other current assets**

	<b>Consolidated</b>	
	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>
Prepayments	80,630	105,528
Advance to Roto-Gro Technologies Inc.	-	822,974
	<u>80,630</u>	<u>928,502</u>

**Note 13. Non-current assets - other financial assets**

	<b>Consolidated</b>	
	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>
Unlisted ordinary shares	<u>459,147</u>	<u>383,789</u>

Refer to note 24 for further information on fair value measurement.

The company has invested CAD\$375,000 in return for 9.09% of Gibio Inc's (Gibio) fully paid ordinary shares on issue and exclusive manufacturing rights for all Gibio facilities worldwide for a period of 20 years. In the current year, the company invested an additional CAD\$46,818 pursuant to a cash call made by Gibio Inc.

Reconciliation of the balance is as below

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**Note 13. Non-current assets - other financial assets (continued)**

	<b>Consolidated</b>	
	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>
Opening balance	383,789	-
Additions	49,674	383,789
Effects of foreign exchange	25,684	-
	<u>459,147</u>	<u>383,789</u>

**Note 14. Non-current assets - Plant and equipment**

	<b>Consolidated</b>	
	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>
Leasehold improvements	352,739	194,618
Less: Accumulated depreciation	(59,155)	(15,909)
	<u>293,584</u>	<u>178,709</u>
Motor vehicles - at cost	44,628	-
Less: Accumulated depreciation	(6,694)	-
	<u>37,934</u>	<u>-</u>
Computer equipment - at cost	57,235	-
Less: Accumulated depreciation	(5,240)	-
	<u>51,995</u>	<u>-</u>
Plant and equipment - at cost	515,061	126,602
Less: Accumulated depreciation	(60,479)	(7,290)
	<u>454,582</u>	<u>119,312</u>
	<u>838,095</u>	<u>298,021</u>

*Reconciliations*

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

<b>Consolidated</b>	Leasehold improvements \$	Plant and equipment \$	Motor vehicle \$	Computer equipment \$	Total \$
Balance at 1 July 2017	-	-	-	-	-
Additions	194,618	126,602	-	-	321,220
Exchange differences	(116)	(53)	-	-	(169)
Depreciation expense	(15,793)	(7,237)	-	-	(23,030)
Balance at 30 June 2018	178,709	119,312	-	-	298,021
Additions	145,750	207,396	44,628	54,963	452,737
Additions through business combinations (note 31)	-	169,778	-	1,236	171,014
Exchange differences	10,101	12,371	(200)	(50)	22,222
Transfers in/(out)	-	(923)	-	923	-
Depreciation expense	(40,975)	(53,352)	(6,495)	(5,077)	(105,899)
Balance at 30 June 2019	<u>293,585</u>	<u>454,582</u>	<u>37,933</u>	<u>51,995</u>	<u>838,095</u>

**Note 14. Non-current assets - Plant and equipment (continued)**

*Accounting policy for property, plant and equipment*

Items of plant and equipment are measured on the cost basis.

The carrying amount of plant and equipment is reviewed annually by the Board to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset's employment and subsequent disposal.

**Depreciation**

The depreciable amount of leasehold improvements is depreciated on a straight-line basis and plant and equipment is depreciated on a reducing-balance basis over their useful lives to the company commencing from the time the asset is held ready for use. The depreciation rates used for each class of depreciable assets are:

Leasehold improvements	20%
Plant and equipment	20-30%
Motor vehicle	20%
Computer equipment	20%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in profit or loss. When re-valued assets are sold, amounts included in the revaluation surplus relating to that asset are transferred to retained earnings.

**Note 15. Non-current assets - intangibles**

	<b>Consolidated</b>	
	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>
Intellectual property - at cost	17,358,000	11,000,000
Less: Accumulated amortisation	<u>(1,114,263)</u>	<u>(608,767)</u>
	<u>16,243,737</u>	<u>10,391,233</u>
Patents and trademarks - at cost	2,422,532	-
Less: Accumulated amortisation	<u>(134,585)</u>	<u>-</u>
	<u>2,287,947</u>	<u>-</u>
	<u><u>18,531,684</u></u>	<u><u>10,391,233</u></u>

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**Note 15. Non-current assets - intangibles (continued)**

*Reconciliations*

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

<b>Consolidated</b>	Intellectual property \$	Patent \$	Total \$
Balance at 1 July 2017	10,831,233	-	10,831,233
Amortisation expense	(440,000)	-	(440,000)
Balance at 30 June 2018	10,391,233	-	10,391,233
Additions through business combinations (note 31)	6,358,000	2,422,532	8,780,532
Amortisation expense	(505,496)	(134,585)	(640,081)
Balance at 30 June 2019	<u>16,243,737</u>	<u>2,287,947</u>	<u>18,531,684</u>

*Accounting policy for intangible assets*

Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at their fair value at the date of the acquisition. Intangible assets acquired separately are initially recognised at cost. Indefinite life intangible assets are not amortised and are subsequently measured at cost less any impairment. Finite life intangible assets are subsequently measured at cost less amortisation and any impairment. The gains or losses recognised in profit or loss arising from the derecognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

*Intellectual property*

Significant costs associated with intellectual property are deferred and amortised on a straight-line basis over the period of their expected benefit, being their finite life of 20 to 25 years.

*Patents and trademarks*

Significant costs associated with patents and trademarks are deferred and amortised on a straight-line basis over the period of their expected benefit, being their finite life of 20 years.

**Note 16. Current liabilities - trade and other payables**

	<b>Consolidated</b>	
	<b>2019</b>	<b>2018</b>
	\$	\$
Trade payables	617,423	342,665
Other payables	224,812	331,066
	<u>842,235</u>	<u>673,731</u>

Refer to note 23 for further information on financial instruments.

*Accounting policy for trade and other payables*

These amounts represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 to 60 days of recognition.

**Note 17. Current liabilities - employee benefits**

	<b>Consolidated</b>	
	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>
Employee benefits	<u>55,307</u>	<u>18,521</u>

*Accounting policy for employee benefits*

Provision is made for the group's obligation for short-term employee benefits. Short-term employee benefits are benefits (other than termination benefits) that are expected to be settled wholly before 12 months after the end of the annual reporting year in which the employees render the related service, including wages, salaries and sick leave. Short-term employee benefits are measured at the (undiscounted) amounts expected to be paid when the obligation is settled.

The group's obligations for short-term employee benefits such as wages, salaries and sick leave are recognised as a part of current trade and other payables in the statement of financial position. The group's obligations for employees' annual leave and long service leave entitlements are recognised as provisions in the statement of financial position.

**Note 18. Current liabilities - other current liabilities**

	<b>Consolidated</b>	
	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>
Contract liabilities	1,028,846	1,125,780
Other current liabilities	<u>116,321</u>	<u>-</u>
	<u>1,145,167</u>	<u>1,125,780</u>

*Reconciliation of contract liabilities*

Reconciliation of the written down values at the beginning and end of the current and previous financial year are set out below:

	<b>Consolidated</b>	
	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>
Opening balance	1,125,780	-
Payments received in advance	505,297	1,125,780
Amounts transferred to revenue (included in opening balance)	(667,289)	-
Foreign exchange difference	<u>65,058</u>	<u>-</u>
Closing balance	<u>1,028,846</u>	<u>1,125,780</u>

*Accounting policy for contract liabilities*

Contract liabilities represent the consolidated entity's obligation to transfer goods or services to a customer and are recognised when a customer pays consideration, or when the consolidated entity recognises a receivable to reflect its unconditional right to consideration (whichever is earlier) before the consolidated entity has transferred the goods or services to the customer.

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**Note 19. Non-current liabilities - provisions**

*Accounting policy for other long-term employee benefits*

The liability for annual leave and long service leave not expected to be settled within 12 months of the reporting date are measured at the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

**Note 20. Equity - issued capital**

	2019 Shares	Consolidated 2018 Shares	2019 \$	2018 \$
Ordinary shares - fully paid	<u>129,875,881</u>	<u>90,367,803</u>	<u>26,893,742</u>	<u>16,181,939</u>

*Movements in ordinary share capital*

Details	Date	Shares	Issue price	\$
Balance	1 July 2017	83,411,501		13,714,841
Shares issued - In lieu of supplier invoice	15 January 2018	375,000	\$0.40	150,000
Shares issued - Placement	29 June 2018	6,581,302	\$0.38	2,500,895
Less fundraising costs		-	\$0.00	<u>(183,797)</u>
Balance	30 June 2018	90,367,803		16,181,939
Shares issued - acquisition of Hanson Water Treatment	2 July 2018	5,000,000	\$0.38	1,900,000
Shares issued - institutional investor placement	3 October 2018	5,418,698	\$0.38	2,059,105
Shares issued - acquisition of Supra THC	7 December 2018	2,250,000	\$0.50	1,125,000
Shares issued - to advisors	7 December 2018	180,000	\$0.50	90,000
Shares issued - acquisition of Roto-Gro Inc and subsidiaries	28 March 2019	10,000,000	\$0.24	2,400,000
Shares issued - institutional investor placement	3 May 2019	16,659,380	\$0.21	3,581,766
Less capital raising costs		-	\$0.00	<u>(444,068)</u>
Balance	30 June 2019	<u>129,875,881</u>		<u>26,893,742</u>

*Ordinary shares*

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the company does not have a limited amount of authorised capital.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

*Share buy-back*

There is no current on-market share buy-back.

*Capital risk management*

The consolidated entity's objectives when managing capital is to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital.

Capital is regarded as total equity, as recognised in the statement of financial position, plus net debt. Net debt is calculated as total borrowings less cash and cash equivalents.

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**Note 20. Equity - issued capital (continued)**

In order to maintain or adjust the capital structure, the consolidated entity may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The consolidated entity would look to raise capital when an opportunity to invest in a business or company was seen as value adding relative to the current company's share price at the time of the investment.

The consolidated entity is subject to certain financing arrangements covenants and meeting these is given priority in all capital risk management decisions. There have been no events of default on the financing arrangements during the financial year.

The capital risk management policy remains unchanged from the June 2018 Annual Report.

*Accounting policy for issued capital*

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

**Note 21. Equity - reserves**

	<b>Consolidated</b>	<b>Consolidated</b>
	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>
Foreign currency reserve	128,215	45,243
Share-based payments reserve	5,974,768	1,991,678
	<u>6,102,983</u>	<u>2,036,921</u>

	<b>Consolidated</b>	<b>Consolidated</b>
	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>
<b>Share based payment reserve</b>		
Opening balance	1,991,678	1,000,000
Share based payments	30,000	991,678
Issuance of performance shares	3,953,090	-
	<u>5,974,768</u>	<u>1,991,678</u>

*Foreign currency translation reserve*

Exchange differences relating to the translation of the results and net assets of the group's foreign operations from their functional currencies to the group's presentation currency (i.e., Australian dollars) are recognised directly in other comprehensive income and accumulated in the foreign currency translation reserve.

*Share-based payments reserve*

The share-based payment reserve is used to recognise the fair value of options granted to suppliers and employees, as well as for funds raised for the issue of options and the fair value of performance shares issued as consideration for acquisitions. Refer to note 37.

**Note 22. Equity - dividends**

There were no dividends paid, recommended or declared during the current or previous financial year.

**Note 23. Financial instruments**

**Financial risk management objectives and policies**

The group's principal financial instruments comprise receivables, payables and cash which arise directly from its operations. The Board has overall responsibility for the establishment and oversight of the risk management framework. Management monitors and manages the financial risks relating to the operations of the group through regular reviews of the risks.

The main risks arising from the group's financial instruments are interest rate risk, credit risk, liquidity risk and foreign exchange risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below

**Risk Exposures and Responses**

*Foreign currency risk*

The group is exposed to foreign exchange rate risk arising from various currency exposures. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in a currency that is not the group's functional currency.

The group's exposure to foreign currency risk at the reporting date was as follows (amounts are in AUD):

	AUD	2019 CAD	USD	AUD	2018 CAD	USD
Cash and cash equivalents	239,919	2,726,270	42,751	2,522,238	321,385	-
Trade and other receivables	34,400	211,717	43,571	16,721	254,322	-
Inventories	-	639,996	228,658	-	129,626	-
Other financial assets	-	459,147	-	-	383,789	-
Trade and other payables	(148,971)	(586,324)	(105,741)	(292,435)	(1,525,597)	-
	<u>125,348</u>	<u>3,450,806</u>	<u>209,239</u>	<u>2,246,524</u>	<u>(436,475)</u>	<u>-</u>

Consolidated - 2019	% change	AUD / CAD change Effect on profit before tax		% change	AUD / USD change Effect on profit before tax	
		Effect on equity	Effect on equity			
Cash and cash equivalents	10%	272,627	272,627	10%	4,275	4,275
Trade and other receivables	10%	21,172	21,172	10%	4,357	4,357
Inventories	10%	64,000	64,000	10%	22,866	22,866
Available for sale financial assets	10%	45,915	45,915	10%	-	-
Trade and other payables	10%	(58,632)	(58,632)	10%	(10,574)	(10,574)
		<u>345,082</u>	<u>345,082</u>		<u>20,924</u>	<u>20,924</u>

**Note 23. Financial instruments (continued)**

<b>Consolidated - 2018</b>	<b>% change</b>	<b>AUD / CAD change Effect on profit before tax</b>	<b>Effect on equity</b>	<b>% change</b>	<b>AUD / USD change Effect on profit before tax</b>	<b>Effect on equity</b>
Cash and cash equivalents	10%	32,138	32,138	-	-	-
Trade and other receivables	10%	25,432	25,432	-	-	-
Inventories	10%	12,993	12,993	-	-	-
Available for sale financial assets	10%	38,379	38,379	-	-	-
Trade and other payables	10%	(152,560)	(152,560)	-	-	-
		<u>(43,618)</u>	<u>(43,618)</u>		<u>-</u>	<u>-</u>

**Price risk**

The consolidated entity is not exposed to any significant price risk.

**Interest rate risk**

The group generates income from interest on surplus funds. At reporting date, the company had the following mix of financial assets and liabilities exposed to Australian variable interest rate risk that are not designated in cash flow hedges:

<b>Consolidated</b>	<b>2019 Balance \$</b>	<b>2018 Balance \$</b>
Cash and cash equivalents	3,008,940	2,843,623
Net exposure to cash flow interest rate risk	<u>3,008,940</u>	<u>2,843,623</u>

There were no financial liabilities exposed to interest rate risk.

**Interest rate sensitivity analysis**

Changes to interest rates are not material to the group.

**Credit risk**

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the group. The group's potential concentration of credit risk consists mainly of cash deposits with banks. The group's short term cash surpluses are placed with banks that have investment grade ratings. The maximum credit risk exposure relating to the financial assets is represented by the carrying value net of any provisions for impairment of those assets as at the reporting date. The group considers the credit standing of counterparties when making deposits to manage the credit risk.

The consolidated entity has adopted a lifetime expected loss allowance in estimating expected credit losses to trade receivables through the use of a provisions matrix using fixed rates of credit loss provisioning. These provisions are considered representative across all customers of the consolidated entity based on recent sales experience, historical collection rates and forward-looking information that is available.

**Liquidity risk**

The responsibility with liquidity risk management rests with the Board. The group manages liquidity risk by monitoring forecast cash flows and ensuring that adequate working capital is maintained. The group's policy is to ensure that it has sufficient cash reserves to carry out its planned activities over the next 12 months.

**Fair value of financial instruments**

Unless otherwise stated, the carrying amounts of financial instruments reflect their fair value.

**Note 24. Fair value measurement**

*Accounting policy for fair value measurement*

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on 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; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Assets and liabilities measured at fair value are classified into three levels, using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed at each reporting date and transfers between levels are determined based on a reassessment of the lowest level of input that is significant to the fair value measurement.

**Note 25. Key management personnel disclosures**

*Directors*

The following persons were directors of Roto-Gro International Limited during the financial year:

Michael Carli	(Non-Executive Chairman)
Michael Slater	(Non-Executive Director)
David Palumbo	(Non-Executive Director) (resigned 30 June 2019)
Julian Atkinson	(Non-Executive Director) (resigned 28 February 2019)
Nathan Lude	(Executive Director) (appointed 28 February 2019, resigned 30 June 2019)
Michael Di Tommaso	(Executive Director) (appointed 30 June 2019)
Terry Gardiner	(Non-Executive Director) (appointed 30 June 2019)
Jamie Myers	(Non-Executive Director) (appointed 30 June 2019)

*Compensation*

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

	<b>Consolidated</b>	
	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>
Short-term employee benefits	584,917	278,557
Post-employment benefits	1,520	5,158
Share-based payments	-	42,018
	<u>586,437</u>	<u>325,733</u>

**Roto-Gro International Limited**  
**Notes to the financial statements**  
**30 June 2019**

**Note 26. Remuneration of auditors**

During the financial year the following fees were paid or payable for services provided by, the auditor of the company:

	<b>Consolidated</b>	
	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>
<i>Audit services - RSM Australia</i>		
Audit or review of the financial statements	54,000	36,000
<i>Other services - RSM Australia</i>		
Taxation services	750	750
	<u>54,750</u>	<u>36,750</u>

**Note 27. Contingent liabilities**

There were no contingent liabilities as at 30 June 2019 (2018: Nil).

**Note 28. Commitments**

	<b>Consolidated</b>	
	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>
<i>Lease commitments - operating</i>		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	225,222	213,022
One to five years	518,258	720,535
	<u>743,480</u>	<u>933,557</u>

**Note 29. Related party transactions**

*Parent entity*

Roto-Gro International Limited is the parent entity.

*Subsidiaries*

Interests in subsidiaries are set out in note 33.

*Key management personnel*

Disclosures relating to key management personnel are set out in note 25 and the remuneration report included in the directors' report.

**Roto-Gro International Limited**  
**Notes to the financial statements**  
**30 June 2019**

**Note 29. Related party transactions (continued)**

*Transactions with related parties*

During the year ended 30 June 2019 the following related party transactions occurred:

- Mining Corporate Pty Ltd has been paid a total of \$114,118 for director fees, accounting, company secretarial and corporate advisory services for the period.
- On 28 March 2019 the company acquired 100% ordinary shares in Roto-Gro International Inc and its subsidiary Roto-Gro Technologies Inc., both entities in which Michael Carli is a director.
- Prior to acquisition, Roto-Gro Inc Group, entities in which Michael Carli is a director of and were outside of the Roto-Gro International Limited Group, invoiced \$243,450 for the purchase of Roto-Gro units, research and development costs associated with the Roto-Gro units and leasehold improvements associated with the manufacturing and showroom facility.
- Prior to acquisition, the group has also subleased a manufacturing facility, offices, a showroom and growing rooms from Roto-Gro International Inc. for a period of 5 years. The group incurred rent and outgoings expense of \$146,544.
- Atkinson Corporate Lawyers Pty Ltd, a related entity of Julian Atkinson, was paid \$41,010 (plus GST) in legal fees.

During the year ended 30 June 2018 the following related party transactions occurred:

- Mining Corporate Pty Ltd, an entity which Stephen Brockhurst is a director and shareholder, has been paid a total of \$47,306 for director fees and \$64,260 for accounting, company secretarial and corporate advisory services for the period to 5 February 2018, the date of his resignation.
- Roto-Gro International Inc and its subsidiary Roto-Gro Technologies Inc., both entities in which Michael Carli is a director and are outside of the Roto-Gro International Limited Group, invoiced \$1,895,293 for the purchase of Roto-Gro units, research and development costs associated with the Roto-Gro units and leasehold improvements associated with the manufacturing and showroom facility. Of the total amount invoiced, \$722,617 relates to the purchase of Roto-Gro units not yet completed as at 30 June 2018 (\$411,361 remained unpaid at 30 June 2018). Additionally, at 30 June 2018, an advance of \$511,718 has been paid pursuant to the OEM Supply Agreement.
- The group has also subleased a manufacturing facility, offices, a showroom and growing rooms from Roto-Gro International Inc. for a period of 5 years. The group incurred rent and outgoings expense of \$132,831 and had prepaid rent of \$4,114.
- Atkinson Corporate Lawyers Pty Ltd, an entity which Julian Atkinson is the sole director, has been paid a total of \$24,420 (inclusive of GST) for legal services. The services were provided on arm's length terms.

All transactions were made on normal commercial terms and conditions and at market rates.

There are no loans to directors or executives at reporting date (30 June 2018: Nil).

*Receivable from and payable to related parties*

There were no trade receivables from or trade payables to related parties at the current and previous reporting date.

*Loans to/from related parties*

There were no loans to or from related parties at the current and previous reporting date.

**Roto-Gro International Limited**  
**Notes to the financial statements**  
**30 June 2019**

**Note 30. Parent entity information**

Set out below is the supplementary information about the parent entity.

*Statement of profit or loss and other comprehensive income*

	<b>Parent</b>	
	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>
Loss after income tax	(14,716,000)	(4,003,967)
Total comprehensive income	(14,716,000)	(4,003,967)

*Statement of financial position*

	<b>Parent</b>	
	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>
Total current assets	290,311	2,598,126
Total assets	13,433,558	13,598,130
Total current liabilities	148,971	292,435
Total liabilities	148,971	292,435
Equity		
Issued capital	26,893,742	16,181,940
Share-based payments reserve	5,974,768	1,991,678
Accumulated losses	(19,583,923)	(4,867,923)
Total equity	<u>13,284,587</u>	<u>13,305,695</u>

*Guarantees entered into by the parent entity in relation to the debts of its subsidiaries*

The parent entity had no guarantees in relation to the debts of its subsidiaries as at 30 June 2018 and 30 June 2019.

*Contingent liabilities*

The parent entity had no contingent liabilities as at 30 June 2018 and 30 June 2019.

*Capital commitments - Plant and equipment*

The parent entity had no capital commitments for plant and equipment as at 30 June 2018 and 30 June 2019.

*Significant accounting policies*

The accounting policies of the parent entity are consistent with those of the consolidated entity, as disclosed in note 2, except for the following:

- Investments in subsidiaries are accounted for at cost, less any impairment, in the parent entity.
- Investments in associates are accounted for at cost, less any impairment, in the parent entity.
- Dividends received from subsidiaries are recognised as other income by the parent entity and its receipt may be an indicator of an impairment of the investment.

**Roto-Gro International Limited**  
**Notes to the financial statements**  
**30 June 2019**

**Note 31. Business combinations**

On 28 March 2019, the company acquired 100% of the ordinary shares in Roto-Gro Inc and its subsidiaries Roto-Gro International Inc, Roto-Gro IP Inc and Roto-Gro Technologies Inc, all based in Canada, together 'Roto-Gro Inc Group'. The acquisition of Roto-Gro Inc Group has been deemed to be a business combination.

As the acquisition of Roto-Gro Inc group was only completed on 28 March 2019, the accounting for business combination at 30 June 2019 is provisional.

Details of the acquisition are as follows:

	<b>Fair value</b>
	<b>\$</b>
Trade receivables	3,178
Inventories	393,649
Plant and equipment	171,014
Intellectual property	6,358,000
Bank overdraft	(23,003)
Trade payables	(50,668)
Related party loan	(1,028,715)
Other borrowings	(116,365)
Net assets acquired	5,707,090
Goodwill	-
Acquisition-date fair value of the total consideration transferred	<u>5,707,090</u>
Representing:	
Roto-Gro International Limited shares issued to vendor*	2,400,000
Contingent consideration**	3,307,090
	<u>5,707,090</u>
Cash used to acquire business, net of cash acquired:	
Bank overdraft	<u>(23,003)</u>

\* 10,000,000 ordinary shares were issued at \$0.24 (24 cents) as partial payment for the acquisition

\*\* Contingent consideration consists of:

- 9,186,360 shares to be issued if \$5m in revenue from perishable orders earned within 18 months, and
- 9,186,360 shares to be issued \$10m in revenue from perishable orders earned within 30 months.

The value of the performance share consideration is calculated on probability estimates from directors of the likelihood of achievement of specified milestones as at acquisition date. Management has assessed the probability of the milestones being met at 70-80%.

*Accounting policy for business combinations*

The acquisition method of accounting is used to account for business combinations regardless of whether equity instruments or other assets are acquired.

The consideration transferred is the sum of the acquisition-date fair values of the assets transferred, equity instruments issued or liabilities incurred by the acquirer to former owners of the acquiree and the amount of any non-controlling interest in the acquiree. For each business combination, the non-controlling interest in the acquiree is measured at either fair value or at the proportionate share of the acquiree's identifiable net assets. All acquisition costs are expensed as incurred to profit or loss.

**Note 31. Business combinations (continued)**

On the acquisition of a business, the consolidated entity assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the consolidated entity's operating or accounting policies and other pertinent conditions in existence at the acquisition-date.

Where the business combination is achieved in stages, the consolidated entity remeasures its previously held equity interest in the acquiree at the acquisition-date fair value and the difference between the fair value and the previous carrying amount is recognised in profit or loss.

Contingent consideration to be transferred by the acquirer is recognised at the acquisition-date fair value. Subsequent changes in the fair value of the contingent consideration classified as an asset or liability is recognised in profit or loss. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity.

The difference between the acquisition-date fair value of assets acquired, liabilities assumed and any non-controlling interest in the acquiree and the fair value of the consideration transferred and the fair value of any pre-existing investment in the acquiree is recognised as goodwill. If the consideration transferred and the pre-existing fair value is less than the fair value of the identifiable net assets acquired, being a bargain purchase to the acquirer, the difference is recognised as a gain directly in profit or loss by the acquirer on the acquisition-date, but only after a reassessment of the identification and measurement of the net assets acquired, the non-controlling interest in the acquiree, if any, the consideration transferred and the acquirer's previously held equity interest in the acquirer.

Business combinations are initially accounted for on a provisional basis. The acquirer retrospectively adjusts the provisional amounts recognised and also recognises additional assets or liabilities during the measurement period, based on new information obtained about the facts and circumstances that existed at the acquisition-date. The measurement period ends on either the earlier of (i) 12 months from the date of the acquisition or (ii) when the acquirer receives all the information possible to determine fair value.

**Note 32. Acquisition of fertigation assets**

*Hansons Commercial Water Treatment*

On 2 July 2018, the company's wholly owned subsidiary Global Fertigation Solutions completed the acquisition of certain assets of Hansons Commercial Water Treatment ("HCWT"), an unlisted company based in Nevada, in exchange for the company's shares and performance shares. The acquisition of HCWT has been treated as an asset acquisition under AASB 2 Share-based Payment ("AASB 2").

Details of the acquisition are as follows:

	<b>Fair value</b>
	<b>\$</b>
Trade receivables	67,500
Inventories	55,968
Patents and trademarks	<u>2,422,532</u>
Net assets acquired	2,546,000
Goodwill	<u>-</u>
Acquisition-date fair value of the total consideration transferred	<u><u>2,546,000</u></u>
Representing:	
Roto-Gro International Limited shares issued to vendor*	1,900,000
Contingent consideration**	<u>646,000</u>
	<u><u>2,546,000</u></u>

**Roto-Gro International Limited**  
**Notes to the financial statements**  
**30 June 2019**

**Note 32. Acquisition of fertigation assets (continued)**

\* 5,000,000 ordinary shares were issued at \$0.38 (38 cents) as partial payment for the acquisition

\*\* Contingent consideration consists of:

- 1,000,000 Class A Performance Shares if EBITDA of \$2 million is earned no later than 2/7/2020
- 1,000,000 Class B Performance Shares if EBITDA of \$4 million is earned no later than 2/7/2021
- 1,000,000 Class C Performance Shares if EBITDA of \$6 million is earned no later than 2/7/2022
- 2,000,000 Class D Performance Shares if EBITDA of \$10 million is earned no later than 02/07/2023

The value of the performance share consideration is calculated on probability estimates from directors of the likelihood of achievement of specified milestones as at acquisition date. Management has assessed the probability of the milestones being met at 10-60%.

**Note 33. Interests in subsidiaries**

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 2:

Name	Principal place of business / Country of incorporation	Ownership interest	
		2019 %	2018 %
Roto-Gro World Wide Inc	Mauritius	100.00%	100.00%
Roto-Gro World Wide (Canada) Inc	Canada	100.00%	100.00%
Global Fertigation Solutions Inc	USA	100.00%	100.00%
Roto-Gro Inc	Canada	100.00%	-
Roto-Gro International Inc	Canada	100.00%	-
Roto-Gro IP Inc	Canada	100.00%	-
Roto-Gro Technology Inc	Canada	100.00%	-

**Note 34. Events after the reporting period**

On 1 July 2019 Roto-Gro International Limited announced the appointment of Mr Adam Clode as Chief Executive Officer. On this date Roto-Gro International Limited also announced the resignation of Mr David Palumbo and Mr Nathan Lude as Non-Executive Directors.

On 2 July 2019 Roto-Gro International Limited announced the expiry of 250,000 unquoted options, due for expiry on 30 June 2019.

On 17 July 2019 Roto-Gro International Limited announced the appointment of Ms Melanie Leydin as the Chief Financial Officer.

On 15 August 2019 Roto-Gro International Limited announced issue of 5,000,000 options and 8,000,000 performance rights expiring on various dates from 31 December 2020 to 31 December 2022 to Adam Clode, Chief Executive Officer.

No other matter or circumstance has arisen since 30 June 2019 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

**Roto-Gro International Limited**  
**Notes to the financial statements**  
**30 June 2019**

**Note 35. Reconciliation of loss after income tax to net cash used in operating activities**

	<b>Consolidated</b>	
	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>
Loss after income tax expense for the year	(6,171,841)	(3,191,738)
Adjustments for:		
Depreciation and amortisation	745,980	463,030
Share-based payments	120,000	991,678
Foreign exchange differences	(2,476)	-
Shares issued in lieu of payment	-	150,000
Supra-THC deposit written off	1,339,984	-
Change in operating assets and liabilities:		
Increase in trade and other receivables	(15,467)	(242,466)
Increase in inventories	(427,351)	(129,976)
Decrease in other assets	24,898	(318,673)
Increase in trade and other payables	131,235	1,187,753
Increase in other provisions	56,504	-
Net cash used in operating activities	<u>(4,198,534)</u>	<u>(1,090,392)</u>

**Note 36. Earnings per share**

	<b>Consolidated</b>	
	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>
Loss after income tax attributable to the owners of Roto-Gro International Limited	<u>(6,171,841)</u>	<u>(3,191,738)</u>
	<b>Number</b>	<b>Number</b>
Weighted average number of ordinary shares used in calculating basic earnings per share	<u>100,612,456</u>	<u>83,532,788</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>100,612,456</u>	<u>83,532,788</u>
	<b>Cents</b>	<b>Cents</b>
Basic earnings per share	(6.13)	(3.82)
Diluted earnings per share	(6.13)	(3.82)

*Accounting policy for earnings per share*

*Basic earnings per share*

Basic earnings per share is calculated by dividing the profit attributable to the owners of Roto-Gro International Limited, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the financial year.

*Diluted earnings per share*

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

**Note 37. Share-based payments**

*Unlisted Options*

There were no options issued during the financial year ended 30 June 2019.

During the financial year ended 30 June 2018, the following options were issued

Grant Date / Entitlement	Number of Instruments	Grant Date	Fair value per instrument \$	Value \$
Unlisted options issued to employees and consultants exercisable at \$0.65 on or before 15 January 2020	2,950,000	12/01/2018	0.32192	949,660
Unlisted options issued to directors exercisable at \$0.70 on or before 30 June 2019	250,000	05/02/2018	0.16807	42,018
	<u>3,200,000</u>		<u>0.48999</u>	<u>991,678</u>

The options issued during the prior period were calculated using the Black-Scholes option pricing model with the following inputs:

Item	Range
Expected volatility (%)	100
Risk free interest rate (%)	1.9
Expected life of options (years)	1.5 – 2 years
Expected dividends	Nil
Option exercise price (\$)	\$0.65 - \$0.70
Share price at grant date (\$)	\$0.48 - \$0.62

The options issued were deemed to vest immediately and there were no other vesting conditions.

The weighted average exercise price during the financial year was NIL (2018: \$0.65).

The weighted average remaining contractual life of options outstanding at the end of the financial year was NIL (2018: 1.5 years).

*Performance Shares*

During the current financial year performance shares issued as part consideration for the acquisition of Roto-Gro Inc Group (refer to note 31) and acquisition of fertigation assets of Hansons Commercial Water Treatment ("HCWT") (refer note 32) which had the following vesting conditions:

- Class A: 1 million performance shares, each to convert to 1 ordinary share if the company generates cumulative EBITDA of \$2 million by no later than 2 July 2020
- Class B: 1 million performance shares, each to convert to 1 ordinary share if the company generates cumulative EBITDA of \$4 million by no later than 2 July 2021.
- Class C: 1 million performance shares, each to convert to 1 ordinary share if the company generates cumulative EBITDA of \$6 million by no later than 2 July 2022.
- Class D: 2 million performance shares, each to convert to 1 ordinary share if the company generates cumulative EBITDA of \$10 million by no later than 2 July 2023.
- 9,186,360 million performance shares, each to convert to 1 ordinary share if the group generates cumulative revenue of \$5 million from perishable orders within 18 months from acquisition date.
- 9,186,360 million performance shares, each to convert to 1 ordinary share if the group generates cumulative revenue of \$10 million from perishable orders within 30 months from acquisition date.

No consideration will be payable upon the vesting of the Performance Shares.

Based on the above, the performance share valuations have been calculated as follows:

**Roto-Gro International Limited**  
**Notes to the financial statements**  
**30 June 2019**

**Note 37. Share-based payments (continued)**

Class	No. of Shares	Issue Date	Lapse Date	Fair Value	Probability %	Total Value \$
A	1,000,000	02/07/2018	02/07/2020	\$0.38	60%	228,000
B	1,000,000	02/07/2018	02/07/2021	\$0.38	50%	190,000
C	1,000,000	02/07/2018	02/07/2022	\$0.38	40%	152,000
D	2,000,000	02/07/2018	02/07/2023	\$0.38	10%	76,000
	9,186,360	28/09/2020	28/09/2020	\$0.24	80%	1,763,781
	<u>9,186,360</u>	28/09/2020	28/09/2021	\$0.24	70%	<u>1,543,309</u>
	<u><u>23,372,720</u></u>					<u><u>3,953,090</u></u>

Fair value: this was determined with reference to the prevailing share price at the date of issue.

Probability: for each performance milestones described above, the Board assessed the probability of achievement and eventual vesting as at the date of acquisition.

On 7 December 2018 1,125,000 shares were issued to external consultants at an issue price of \$0.50 per share and a total transaction value of \$90,000.

As at 30 June 2019, \$30,000 have been recorded as share-based expense to external consultant. As per the consulting agreement the consulting services are to be settled by share issue. As at 30 June 2019, shares have not been issued and the amount is recorded in share-based payment reserve.

*Accounting policy for share-based payments*

The company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Significant judgement may be required in determining the valuation technique adopted. The fair value of the options issued in the current period are determined by an internal valuation using a Black-Scholes option pricing model, using the assumptions detailed above. The assumptions detailed in this note are also judgemental.

For equity transactions with consultants and other employees, the fair value reflects the value attributable to services where applicable. Where there is no quantifiable value of services the value of options is calculated using the Black and Scholes option pricing model.

For instruments issued with market-based conditions, alternative valuation methodologies would be adopted.

**Roto-Gro International Limited**  
**Directors' declaration**  
**30 June 2019**

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 2 to the financial statements;
- the attached financial statements and notes give a true and fair view of the consolidated entity's financial position as at 30 June 2019 and of its performance for the financial year ended on that date; and
- there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

The Board of Directors have been given the declarations required by section 295A of the Corporations Act 2001.

Signed in accordance with a resolution of the Board of Directors made pursuant to section 295(5)(a) of the Corporations Act 2001.

On behalf of the Board of Directors



Michael Carli  
Non-Executive Chairman

30 August 2019

**RSM Australia Partners**

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**INDEPENDENT AUDITOR'S REPORT  
TO THE MEMBERS OF  
ROTO-GRO INTERNATIONAL LIMITED**

**Opinion**

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

In our opinion, the accompanying financial report of the Group is in accordance with the Corporations Act 2001, including:

- (i) Giving a true and fair view of the Group's financial position as at 30 June 2019 and of its financial performance for the year then ended; and
- (ii) Complying with Australian Accounting Standards and the Corporations Regulations 2001.

**Basis for Opinion**

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the Corporations Act 2001 and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the Corporations Act 2001, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

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

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## Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How our audit addressed this matter
<b>Business combinations and acquisition of assets</b> Refer to Note 31 and 32 in the financial statements	
<p>On 28 March 2019, the Group acquired 100% of Roto-Gro Inc and its subsidiaries. Under a share sale and purchase agreement, the purchase consideration of \$5,707,090 consisted of 10,000,000 fully paid ordinary shares and contingent consideration of 18,372,720 performance shares.</p> <p>On 2 July 2018, the Group acquired fertigation assets of Hansons Commercial Water Treatment. Under an asset sale and purchase agreement, the purchase consideration of \$2,546,000 consisted of 5,000,000 fully paid ordinary shares and contingent consideration of 5,000,000 performance shares.</p> <p>The accounting for these acquisitions is a key audit matter because it involved the exercise of judgement in relation to:</p> <ul style="list-style-type: none"> <li>• Determining whether the transactions were a business combination or an asset acquisition, based on whether the definition of a business in <i>AASB 3 Business Combinations</i> was met;</li> <li>• Determining the fair value of the consideration paid through the issue of ordinary shares and performance shares;</li> <li>• Determining the fair value of net assets acquired; and</li> <li>• Determining the acquisition date.</li> </ul>	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> <li>• Reviewing the respective sale and purchase agreements to understand each transaction and the related accounting considerations;</li> <li>• Assessing management's determination of the fair value of the consideration paid and net assets acquired;</li> <li>• Evaluating management's determination that the acquisition of Roto-Gro Inc met the definition of a business within <i>AASB 3 Business Combinations</i> and therefore was a business combination;</li> <li>• Evaluating management's determination that the acquisition of fertigation assets did not meet the definition of a business within <i>AASB 3 Business Combinations</i> and therefore was an asset acquisition under <i>AASB 2 Share-based Payment</i>; and</li> <li>• Reviewing the disclosures in the financial statements.</li> </ul>
<b>Intangible assets</b> Refer to Note 15 in the financial statements	
<p>The Group has intangible assets of \$18,531,684 as at the reporting date.</p> <p>As required by Australian Accounting Standards, management is required to assess at each reporting date whether there is any indication that an asset may be impaired. Management did not identify any indicators of impairment, and therefore no impairment test was performed.</p> <p>We determined this area to be a key audit matter due to the size of the balance and due to significant management judgement involved in assessing whether indicators of impairment are present and if so, judgement applied to determine and quantify any impairment loss.</p>	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> <li>• Reviewing management's assessment that no impairment indicators were present;</li> <li>• Enquiring with management and reviewing budgets to assess the future cash flows associated with the licences; and</li> <li>• Checking the mathematical accuracy of the amortisation expense of the intangible assets.</li> </ul>

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## **Other Information**

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2019 but does not include the financial report and the auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## **Responsibilities of the Directors for the Financial Report**

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

## **Auditor's Responsibilities for the Audit of the Financial Report**

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: [http://www.auasb.gov.au/auditors\\_responsibilities/ar2.pdf](http://www.auasb.gov.au/auditors_responsibilities/ar2.pdf). This description forms part of our auditor's report.

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## Report on the Remuneration Report

### *Opinion on the Remuneration Report*

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2019.

In our opinion, the Remuneration Report of Roto-Gro International Limited, for the year ended 30 June 2019, complies with section 300A of the Corporations Act 2001.

### *Responsibilities*

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.



RSM AUSTRALIA PARTNERS



TUTU PHONG  
Partner

Perth, WA  
Dated: 30 August 2019

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**Roto-Gro International Limited**  
**Shareholder information**  
**30 June 2019**

The shareholder information set out below was applicable as at 28 August 2019

**Distribution of equitable securities**

Analysis of number of equitable security holders by size of holding:

	Number of holders of ordinary shares	Number of holders of options over ordinary shares
1 to 1,000	170	-
1,001 to 5,000	500	-
5,001 to 10,000	262	-
10,001 to 100,000	467	2
100,001 and over	65	8
	<u>1,464</u>	<u>10</u>
Holding less than a marketable parcel	<u>334</u>	<u>-</u>

**Equity security holders**

*Twenty largest quoted equity security holders*

The names of the twenty largest security holders of quoted equity securities are listed below:

	Number held	Ordinary shares % of total shares issued
SHERRY D GALLANT	7,588,500	5.84
VERTICAL LTD	4,500,000	3.46
SLOOP INVESTMENTS INC.	3,400,000	2.62
CITICORP NOMINEES PTY LIMITED	3,181,788	2.45
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	2,736,193	2.11
J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	2,680,419	2.06
MRS LILY MAH	2,524,348	1.94
BALCIN CORP S.A.	2,520,000	1.94
BARRY GALLANT	2,500,000	1.92
JAMES PAUL CRANFIELD	2,500,000	1.92
MR NARINDER SINGH SUDAGAR SINGH SIDHU	2,264,681	1.74
VALENS GROWWORKS CORP	2,250,000	1.73
MR COLIN ANDREW SAYCE & MRS MICHELE KAREN SAYCE	2,130,000	1.64
CARBON HOLDCO INC.	2,025,000	1.56
SUN CORE LTD	2,000,000	1.54
SHANGHAI HOLDINGS PTY LTD	2,000,000	1.54
MR MIGUEL MARQUES DO REGO	1,885,000	1.45
TUUC MANAGEMENT LTD.	1,825,000	1.41
MR ANTONY SUNNA	1,550,000	1.19
PENNINE RESOURCES LTD	1,500,000	1.15
	<u>53,560,929</u>	<u>41.21</u>

**Roto-Gro International Limited**  
**Shareholder information**  
**30 June 2019**

*Unquoted equity securities*

	<b>Number on issue</b>
CEO PERFORMANCE RIGHTS CLASS A	1,000,000
CEO PERFORMANCE RIGHTS CLASS B	1,000,000
CEO PERFORMANCE RIGHTS CLASS C	2,000,000
CEO PERFORMANCE RIGHTS CLASS D	1,000,000
CEO PERFORMANCE RIGHTS CLASS E	1,000,000
CEO PERFORMANCE RIGHTS CLASS F	2,000,000
ESCROWED PERFORMANCE SHARES CLASS A	9,186,360
ESCROWED PERFORMANCE SHARES CLASS B	9,186,360
HANSON PERFORMANCE SHARES CLASS A	1,000,000
HANSON PERFORMANCE SHARES CLASS B	1,000,000
HANSON PERFORMANCE SHARES CLASS C	1,000,000
HANSON PERFORMANCE SHARES CLASS D	2,000,000
ESCROWED CLASS C PERFORMANCE RIGHTS	9,000,000
ESCROWED CLASS D PERFORMANCE RIGHTS	9,000,000
UNLISTED OPTIONS EXPIRING 15/01/20 @ 0.65	2,950,000
UNLISTED OPTIONS EXPIRING 15/08/21 @ 0.3225	2,500,000
UNLISTED OPTIONS EXPIRING 15/08/22 @ 0.43	2,500,000

**Substantial holders**

Substantial holders in the company are set out below:

	<b>Ordinary shares</b>	
	<b>Number held</b>	<b>% of total shares issued</b>
JAMES AND SHERRY GALLANT	10,088,500	7.77

**Voting rights**

The voting rights attached to ordinary shares are set out below:

*Ordinary shares*

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

There are no other classes of equity securities.

**Securities subject to voluntary escrow**

<b>Class</b>	<b>Expiry date</b>	<b>Number of shares</b>
Fully paid ordinary shares	28 March 2020	10,000,000