

THC Global (ASX:THC)

A global extraction powerhouse?

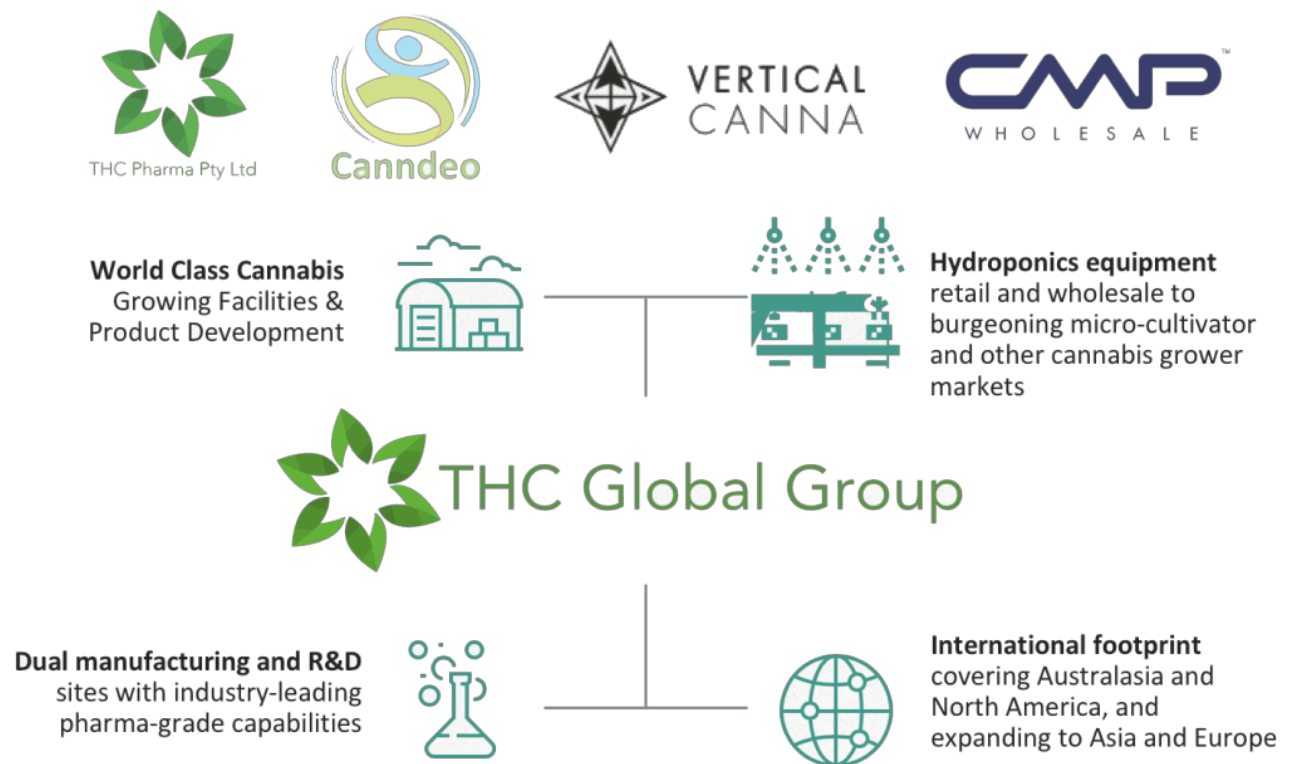
THE GREEN FUND



THC Global Group Limited (ASX:THC) is a medicinal cannabis producer with a vertically-integrated business model and a “farm to pharma” strategy that aims to corner all aspects of the cannabis market.

Having secured both a significant cultivation capacity over two grow sites, and an industry-leading pharmaceuticals bio-manufacturing facility with attached testing and product development laboratory, THC Global is in prime position to service both domestic patients and the export market. THC Global’s commercial partners operate across four continents, supporting future international growth.

THC operate a number of different subsidiaries, which have been structured to take advantage of their growing global strategy.



Source: THC Global

Canndeo

Canndeo is their Australian entity that has ODC-issued licenses and permits for both cultivation and Research & Development. The permits are what separates THC from many of the other players who don't have proper security cleared sites with suitable staff in order to be granted permits to commence cultivation/R&D under the respective licences.

Canndeo owns and operates the Bundaberg facility in Queensland and has access to the largest Plant Breeder's Rights (PBR) registered cannabis strain repository in Australia. According to a spokesperson for THC, this means that that company has exclusive perpetual access to six cannabis PBR's for Research & Development and commercialisation purposes, making it the largest holding of any Australian pot stock.

"The registered PBRs are for high-quality strains which have strong commercial value both in use within our own production and for potential licensing," the spokesperson said.

"Any company can register a Plant Breeders Right—it's like a patent for a plant species. However, we have the largest library of granted strains for medicinal cannabis use."

Canndeo is also responsible for the distribution of imported medicinal cannabis products in Australia.

THC Pharma and THC Pharma (NZ)

Then there is THC Pharma, their full-scale, Pharma-grade, extraction and research facility in Southport. This state-of-the-art bio-flora extraction facility gives THC the ability to produce the highest purity, pharmaceutical-grade extracts.

However, it's not just about extraction. This subsidiary also owns the lease over an additional growing site in NSW (more on that later). THC Pharma (NZ) is the sales and distribution company looking to capture a significant market share of imported medicinal cannabis drugs.

As part of its journey, the company elected to change its' name from THC to THC Global, and for good reason. THC is not only focused on Australia but rather sees itself as a globally driven business. In today's manic green rush, with every continent waking up to this business opportunity, many markets are up for grabs. Canada is one such market.

Vertical Canna Inc.

Having legalised for adult recreational use in October last year, the Canadian recreational market has been booming. There is a serious under-supply of legal recreational cannabis in Canada, and every Licensed Producer is producing as fast as it can to service this market.

THC Global has recognised this need and have launched their Canadian subsidiary, Vertical Canna Inc. The company is gearing up to be a vertically-integrated Licensed Producer in the recreational, medicinal and nutraceutical markets that will also act as their investment entity for other vertically-integrated Canadian cannabis assets they may wish to acquire. They have their cultivation license for their project in Nova Scotia.

Although THC was unwilling to reveal the location of its new Canadian cultivation facility, it did reveal that the site is being acquired from a Nova Scotia-based group of experts in cannabis project development in Canada. As part of the deal, one of the former businesses key leaders will stay on, becoming a director of Vertical Canna Inc, to “drive their Canadian cannabis development”.

“We expect to be in production in early 2020 if not very late 2019.”

- Ken Charteris, CEO THC Global

“The next step for THC with the Nova Scotia asset will be to confirm build-out plans and settle final licensing arrangements. As we move towards construction of the site in 2019, we will consider funding by way of a mix of existing cash or debt and equity financing,” a spokesperson said. “The project financing market in Canada for cannabis projects is strong and may be a suitable option. We are yet to make commitments.”

Crystal Mountain

And finally, they have Crystal Mountain, the company’s North American based hydroponics equipment and supplies retailer, and distributor. This business subsidiary is already revenue generating and accounts for most of THC’s current revenue. Many people forget about the ancillary market when they consider the cannabis industry, but there is much growth to be had in this area.

The other half of Day One—the date that cannabis was officially legalised for recreational use in Canada—is the home grow market. Part of the legislation allows for adults to grow up to 4 plants, at home (in certain provinces), and home grows require equipment. Granted, this subsidiary has great promise, but unless they can get European contracts that create real scale to the demand, this is not going to significantly move the needle.

Vertical Integration

According to the CEO of THC Global, Ken Charteris, the company's focus on vertical integration is beginning to show dividends as it transitions into manufacturing for the domestic market. Charteris is a veteran of multiple biotech and pharmaceutical companies and clearly identifies with the issues facing the Australian medicinal market.

However, he is also quick to point out areas and changes that would drive escalation in patient growth and product demand. Although THC has yet to finalise the growing permits for its' NSW cultivation facility, the company's international subsidiaries mean that it is one of the few Australian cannabis stocks that is currently turning a profit.

"Q4 2018 has been a pivotal quarter for the company focusing on developing a vertically integrated global cannabis business and marking the company's transition into production mode as its domestic facilities receive final licensing and permitting required," Charteris said.

"We are pleased to see first plants on site at our manufacturing and cultivation site, and look forward to commencing the first stage of our manufacturing activities to support the domestic market with a view to our larger facility being used to pursue export opportunities."

THC Global already have several growing sites established in Australia, along with an industry-leading biopharmaceutical facility, and are in the process of acquiring a domestic manufacturing license allowing for product validation and study trial production.

The company has four main facilities to speak of: The facility in Bundaberg is licensed by the ODC for Cultivation and Research & Development. Further to this, it received its permits to commence cultivation and R&D activities under the licences in December 2018.

The site is very small, but it does include a minor-scale manufacturing facility for the extraction of oils and other concentrates. THC intend to use this facility for the validation and testing of strains, genetics, and trials.



Source: THC Global

Staying with cultivation, THC also has a production and manufacturing site at Jenbrook in Ballina. This organic tea tree farm is going to become the primary cultivation facility for the group. With plans to construct a 30,000 square meter greenhouse, capable of producing over 50,000 kilograms annually in the first stage of production, this would bring significant scale to THC's production.

The facility was acquired under a long-term lease agreement, and the company is banking on harvesting its' first crop by late 2019 to early 2020, pending licensing approval.

"We signed it in conjunction with a broader collaboration with the owner of the property who is in the business of producing honey and tea tree extract," a spokesperson said.

"They have agreed to an off-take of our cannabis from the site to produce honey products, and we have agreed to purchase tea tree extract to experiment in developing future cannabis products for the Australian and export markets."

The company's third growing site will be located in Nova Scotia and have the capacity to produce over 37,000 kilograms per annum, as well as being capable of incorporating extraction capabilities into the plant. At present, this is just a site but does have the potential to supply the Company's Southport operation with further plant material.

The jewel in the crown

It's this fourth facility that potentially may have the greatest impact on the company's fortunes in the short-term, particularly the next 24 months: their manufacturing plant and Validation Labs in Southport, Brisbane.



Source: THC Global

The Green Fund was given a tour of the Southport labs in February 2019, and observed a number of impressive qualities, starting with the assets' value. THC Global acquired the facility from its' original owners, Leo Pharma, who was left with a redundant asset following a Phase 3 drug trial failure. This allowed THC to pick up the facility—which has an insurance value of \$35 million—for a cool \$2.55 million.

Doesn't matter which way you look at it. That's smart business.

Although the facility is small, its' output is anything but. The cultivation plant is capable of producing up to 120,000 kilograms of oil per annum, while its' ethanol based extraction facility, is built to cater to the extracts and concentrates market. And it is clear as day how favourable we are on this sector.

“Our manufacturing site includes a full-scale on-site lab designed for validation of pharma products, testing, and R&D,” said Ken Charteris.



Source: THC Global

The large scale, pharmaceutical grade manufacturing facility, is built to European GMP standards, meaning exports to the European Union in particular—as demand for concentrates continues to grow—is locked and loaded. The facility is packed with machinery and systems designed to have the ability to continue to distill the end product in order to produce the finest active pharmaceutical ingredient's (API) and isolated cannabinoids. More importantly, it can also process the whole plant for full-spectrum isolates that create the entourage effect.

The company is also planning for the future. Dr. Andrew Beehag, who heads up the Medical Cannabis Division, showed us the facility's Synthesis Room. Although it is currently illegal in Australia to develop synthetic cannabis, the future of cannabis production is currently under the spotlight, and companies specialising in the bio-synthesis of CBD have been receiving massive investment. It's a great arrow for THC to have in the quiver, although until the legislative environment catches up, for the moment, that's where it will remain.

The facility's API technology—which can extract active compounds from individual strains and produce per product specifications—means that the facility is built to serve the extracts market. This is an important area for any major cannabis stock, as extracts is one of the fastest growing markets on the planet and are beginning to gain significant investment attention.



Source: THC Global

The facility's 120,000 kilograms oil output capacity is far, far greater than the entire Australian demand, and this is where it gets interesting. The big Canadian LP's are all outsourcing extraction of their own production right now since no one has enough individual capacity to meet the medicinal and recreational demands for extracts.

Canopy Growth and Supreme have both recently signed agreements to outsource their extraction requirements, and THC will be able to tap straight into this demand. According to the company, they are currently negotiating Partner off-take agreements in order to firm up, even guarantee, their revenue stream. This means that the facility is a very serious asset with huge income earning potential. And, according to the company, it's the largest one in the Southern hemisphere.

The facility, when at full capacity, will essentially be the foundation on which the revenues of the company are built on. The facility can produce up to 12,000 kg of cannabidiol active ingredients per annum, which the company expects to be valued in excess of 10 cents per milligram. Short term performance is directly linked to the output this facility produces, and therein lies the problem. It's still waiting for its manufacturing permit from the ODC.

Runs on the board

They intend to be vertically-integrated and to have enough supply capacity to drive the top line growth, but for the moment, they do not have any capacity to harvest for product development. But they have taken the bull by the horns and done a licensing deal with Endoca to bring their range of GMP certified, high purity CBD oil, capsules, to the Australian and New Zealand markets.

Following the deal's announcement, THC Global's CEO Ken Charteris said that the company is looking "forward to our first orders in New Zealand in the coming weeks as we continue to expand our global footprint in the medicinal cannabis market, both in the Asia Pacific and in North America".

"The expansion into New Zealand represents the next step in the development of THC Global as a significant participant in the global medicinal cannabis market," he said.

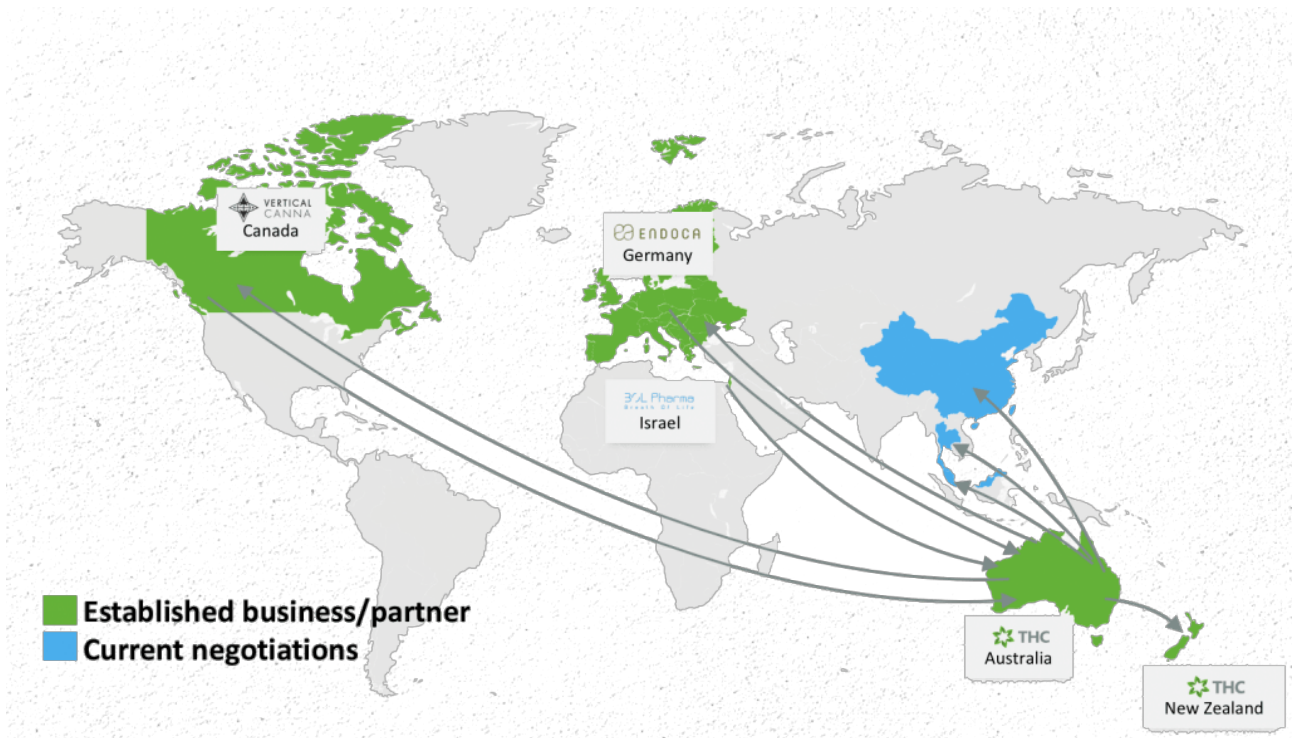
While New Zealand is a relatively limited market, the company expects that local regulations will allow for rapid revenue generating sales once the distribution of Endoca's cannabidiol products officially commences.

This is because products with over 98% CBD can already be legally prescribed by medical practitioners in New Zealand without the need for special authorisation—unlike in Australia—which THC Global believes will result in stronger patient uptake.

If the company can successfully commence importation then it will be well positioned to conquer the market, as the only other government approved cannabis-based medication available in New Zealand currently costs patients \$14,000 per year.

THC Global have already confirmed that they intend to make Endoca's cannabidiol products available at a substantially cheaper price, increasing patient access and lowering the cost of consumer uptake.

Although its local opportunities are still limited by Australia's strict licensing process and New Zealand's limited market size, the company has already turned its attention to global market opportunities.



Source: THC Global

In Canada

- Hydroponics: The Crystal Mountain business is based in Vancouver, Canada. This business has distribution partnerships across Canada.
- Cannabis: In Canada, their wholly owned subsidiary Vertical Canna Inc is looking to undertake acquisitions of near-term revenue generating assets that fit within their vertically integrated cannabis approach.
- The first acquisition is the Nova Scotian asset which will be a licenced producer of Cannabis in Canada to service the medicinal and recreational markets. They have stated that they will also consider the value of commencing manufacturing in Canada of cannabis products in the near term.
- THC Global does not operate in the USA due to the illegality of cannabis at the federal level.

In Europe

- Hydroponics: Crystal Mountain has distribution agreements into Europe which will drive future revenue growth especially as the distributed product range broadens
- Cannabis: As their import partner, Endoca, is based in Germany, they are leveraging this in order to investigate, and drive, other potential partnerships or alliances with European companies.

And expansion into the Asian market is expected to occur at some point in 2019. Although details concerning the move into Asia are still scarce, THC Global have announced that further information concerning its' early-stage partnership negotiations in the region will be revealed in the coming months.

"We believe that our geographical reach is not spreading ourselves thin but rather building a strong web of connections globally that will support our future growth as a global cannabis business. We seek targeted investments and opportunities to fit our strategic model in each region.

Our commercial partnerships and alliances are almost all with partners who have commercialised their IP or are otherwise revenue if not profit generating companies which go to highlight the calibre of our associations", said a company spokesperson.

Home ground, no advantage. Yet

Unfortunately, the situation is far more restrictive in Australia. THC Global is still waiting on the approval of manufacturing permits for its' pharmaceutical facilities located in Southport and Bundaberg, meaning that it is unlikely to begin manufacturing CBD oils by the start of April as originally planned. It can take from 18 months to two years to get a manufacturing license officially approved by the Office of Drug Control, as every area of the business must be signed off on by the department.

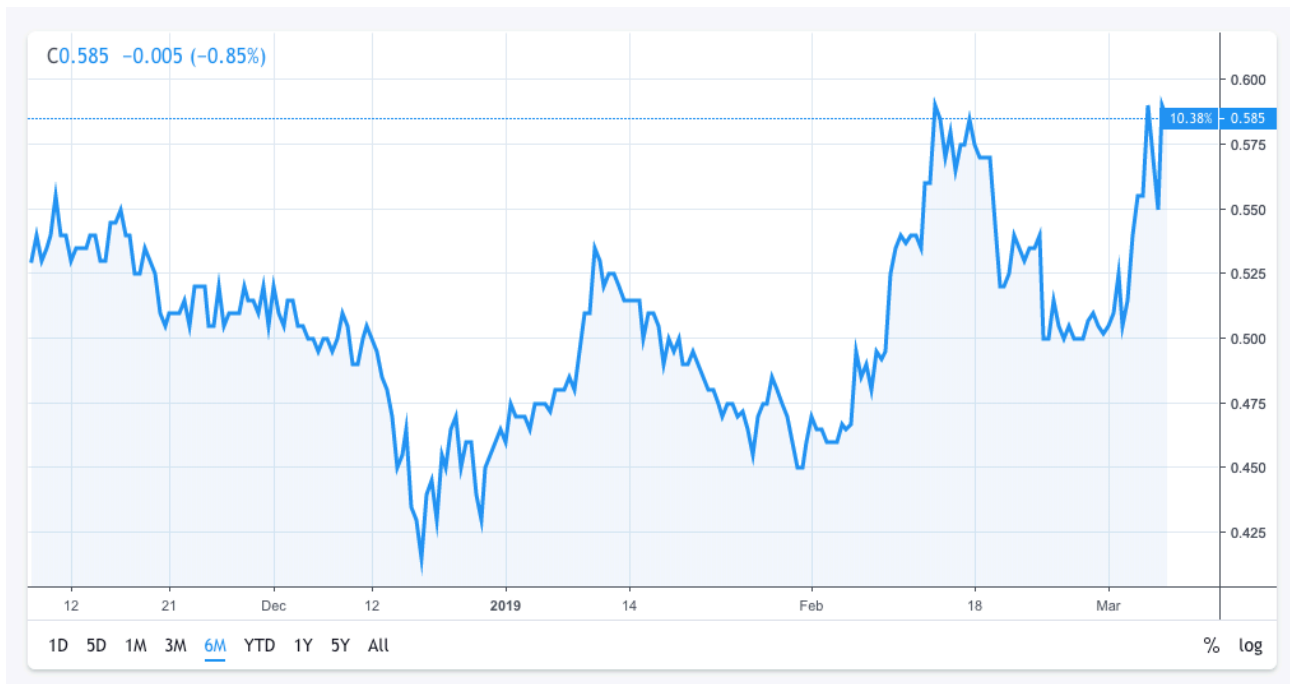
THC Global's licence application for Southport is in the final stages of approval with the Government. The Company is confident that with the granting of permits to the Company, that it's level of compliance and quality of staff exceed the expectations of the regulator and therefore are not likely to have any issues in the granting of the remaining licences and permits.

THC Global are looking to exploit the gap in the market left by a lack of good manufacturing practice (GMP) cannabis providers, with few companies have the preexisting infrastructure necessary to produce enough sufficient quality product for the GMP market.

The fact that their extraction facility is GMP certified is what Ken Charteris believes sets THC Global apart from other marijuana cultivators.

"There's a worldwide shortage of pharmaceutical GMP [cultivators] and no one has the capacity to do [this level of quality]," Mr Charteris says. "One of the basic prerequisites is a very strict control of quality and production processes. The cannabis sector really hadn't grappled with that because of the way it evolved. Pharmaceutical grade is a major stumbling block."

Currently, only international rivals Canopy Growth and Aurora Cannabis have the necessary systems in place to produce GMP grade cannabis, while most other growing companies have instead chosen to focus on producing lower quality marijuana for recreational markets such as Canada and the US.



Source: TradingView

The bottom Line

Shares in THC Global reached an early high in 2018, hitting \$1.00 a piece at the start of January. However, the cannabis stock then proceeded to enter a year-long downward spiral before hitting an eventual low in December of \$0.41. The share price drop was caused in part by an industry-wide decline that continued for much of 2018, as nervous investors abandoned their long position in favour of a staggered sell-off.

While this may seem like bad news for the cannabis manufacturer, the market appears to be generally bullish about the pot stock's chances for 2019. THC is expected to rebound on the back of future announcements from the company—such as further license approvals or international partnership agreements—which will likely cause a spike in share prices.

Currently, THC has a monthly cash burn rate of \$403,000, along with over \$6.3 million in the bank. Given the expansion required to drive their top line revenue, and with the potential for the burn to increase even more once the Southport facility is open, there is no doubt that THC has to shore up the balance sheet. They are going to have to go back to the market, at some point.

The year's performance will come down to how soon they are granted their manufacturing license, and how soon they can move to production. A key factor in their success will be Partner Off-Take agreements that will commercialise this production.

Shares in the cannabis producer already began making a comeback last month, and as of 5th of March the pot stock was trading at \$0.55 a share. \$1.00 by the end of 2019 is certainly achievable but would require significant execution of the Southport extraction facility, and at least another \$5 million on the Balance Sheet.

The plan is sound, and the growth strategy is on the money. It's now down to execution.

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