

# **ASX APPENDIX 4E PRELIMINARY FINAL REPORT & DIRECTORS' REPORT AND AUDITED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 30 JUNE 2021**  
(previous corresponding period: year ended 30 June 2020)

*Provided to the ASX in accordance with listing rule 4.3A*



## 1. Company details

Name of entity:	Cann Group Limited
ABN:	25 603 949 739
Reporting period:	For the year ended 30 June 2021
Previous period:	For the year ended 30 June 2020

## 2. Results for announcement to the market

	30 June 2021 \$'000	30 June 2020 \$'000	Change \$'000	Change %
Revenue and other income from ordinary activities	8,568	1,862	6,706	360%
Net (loss) from ordinary activities after tax attributable to members	(25,103)	(16,937)	(8,166)	48%
Net (loss) attributable to members	(25,103)	(16,937)	(8,166)	48%

### Dividends

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

### Comments

The loss for the Group after providing for income tax amounted to \$25.10 million (30 June 2020: \$16.94 million).

## 3. Net tangible assets

	Reporting period \$	Previous period \$
Net tangible assets per ordinary security	0.32	0.46

## 4. Control gained over entities

	Satipharm Europe Ltd Satipharm Limited Satipharm AG Satipharm Australia Pty Ltd Satipharm Canada Limited Phytotech Therapeutics Ltd
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Name of entities (or group of entities) (collectively "Satipharm")

Date control gained 10 March 2021

	\$'000
Contribution of Satipharm Group to the reporting entity's revenue from ordinary activities from the date of acquisition to 30 June 2021	226
Satipharm Group's revenue from ordinary activities for the year ended 30 June 2021	625

## 5. Dividends

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

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## 6. Audit qualification or review

The Appendix 4E is based on the consolidated financial statements which have been audited by William Buck and an unmodified opinion has been issued.

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## 7. Attachments

Additional Appendix 4E disclosure requirements can be found in the attached Directors' Report and the Financial Statements and accompanying notes for the year ended 30 June 2021.

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## 8. Signed

Signed



Allan McCallum AO  
Chairman  
Melbourne

Date: 23 August 2021

The Directors present their report, together with the financial statements, on the consolidated entity (Group) consisting of Cann Group Limited (Company or parent entity) and the entities it controlled at the end of, or during, the year ended 30 June 2021.

### Information on Directors

The names and details of the Directors in office during the year and until the date of this report are as follows. Directors have been in office for this entire year unless otherwise stated.

Name:	<b>Allan McCallum AO</b>
Title:	<b>Non-executive Chairman</b>
Qualifications:	Dip. Ag Science, FAICD
Experience and expertise:	Allan has broad experience as a public company director in agribusiness and healthcare who has strong ethics, proven leadership capabilities and extensive experience in strategy development and implementation and mergers and acquisitions. Allan is the current Chair of Tassal Group Ltd (ASX:TGR) from 7 October 2003 Australia's largest producer of Atlantic salmon and prawns, and is a member of Rabobank Australia Limited's Advisory Board (wholesale banking).

He has previously been a director of ASX listed companies Medical Developments International Ltd (ASX:MVP) from 27 October 2003 to 17 December 2018, Incitec Pivot Ltd (ASX:IPL) from 30 January 1998 to 19 December 2013 and Graincorp Ltd (ASX:GMR) from 26 February 1998 to 26 August 2005.

Director since 30 January 2015.

Other current directorships:	Tassal Group Ltd (ASX:TGR)
Former directorships (last 3 years):	Medical Developments International Ltd (ASX:MVP) (left 17 December 2018)
Special responsibilities:	Member of Audit and Risk Committee and Chairman of the Remuneration and Capital Committees.
Interests in shares:	6,155,000 fully paid ordinary shares

Name:	<b>Philip Robert Nicholas Jacobsen</b>
Title:	<b>Deputy Chairman</b>
Qualifications:	CPA
Experience and expertise:	An experienced public company director, he co-founded Premier Artists in 1975 and The Frontier Touring Company in 1979. He serves as a director of Liberation Music, Premier Artists, The Harbour Agency and Jacobsen Bloodstock. Former Chair of MCM Entertainment Group, Philip brings to the Board a 45 plus year history of applying solid fiscal accounting perspectives to an emerging business model in a constantly changing, high demand marketplace. Philip is also an Associate of the Chartered Institute of Secretaries (ACIS).

Philip is not, and has not in the past three years been, a director of any other ASX-listed companies.

Director since 30 January 2015.

Other current directorships:	n/a
Former directorships (last 3 years):	n/a
Special responsibilities:	Chairman of Audit and Risk Committee (until September 2020) and thereafter Member of Audit and Risk Committee; Member of Remuneration Committee.
Interests in shares:	6,319,518 fully paid ordinary shares

Name:  
 Title:  
 Qualifications:  
 Experience and expertise:

**Douglas John Rathbone AM**  
**Non-executive Director**

AM FATSE, FI ChemE, ARMIT B Comm, TTC

An experienced public company director, he is the former Managing Director and CEO of Nufarm Limited (ASX:NUF) from 21 August 1987 to 4 February 2015 – an ASX 200 listed company and is a former Board member of the FERNZ Corporation and the CSIRO. He is Chairman of the Rathbone Wine Group, Director of Cotton Seed Distributors, Leaf Resources Ltd (ASX:LER) from 1 November 2016 and Chairman since 1 April 2018, Go Resources, Queenscliff Harbour Pty Ltd and AgBiTech. He is also a former member of the Rabobank Advisory Board, an Honorary Life Governor of the Royal Children's Hospital and a former Director of the Burnett Centre for Medical Research. Doug brings to the Board experienced management and corporate governance skills together with a passion to grow the business having successfully transformed Nufarm to become one of the world's leading crop protection and seed companies with an extensive global footprint.

Director since 16 March 2015.

Other current directorships:  
 Former directorships (last 3 years):  
 Special responsibilities:  
 Interests in shares:

Leaf Resources Ltd (ASX:LER)

n/a

Member of Audit and Risk Committee (until September 2020) and Chair of Capital Committee.  
 2,821,580 fully paid ordinary shares

Name:  
 Title:  
 Experience and expertise:

**Geoffrey Ronald Pearce**  
**Non-executive Director**

Geoff is a successful entrepreneur and businessman with more than 40 years' experience in the personal care industry. He established and owned Scental Pacific Pty Ltd and grew the business to become Victoria's largest manufacturer of personal care products before selling it to the Smorgon Family. He later built a contract manufacturing business, Beautiworx Australia Pty Ltd, which was also sold. Geoff currently owns The Continental Group, which supplies pharmaceutical packaging and raw materials and has developed alliances with some of the world's leading herbal extract manufacturers. He has extensive experience in areas including manufacturing, procurement, distribution and regulatory affairs. He held the role of Chairman of Probiotec Ltd (ASX:PBP) from November 2016 until 30 June 2020 and has been a Director of McPherson's Limited (ASX:MCP) since 20 February 2018.

Director since 11 April 2016.

Other current directorships:  
 Former directorships (last 3 years):  
 Special responsibilities:  
 Interests in shares:

McPherson's Limited (ASX:MCP)

Probiotec Ltd (ASX:PBP) (left 30 June 2020)

Member of Remuneration and Capital Committees.

1,754,195 fully paid ordinary shares

Name:  
 Title:  
 Qualifications:  
 Experience and expertise:

**Jennifer Pilcher**  
**Non-executive Director**

Member of the Chartered Accountants of Australia & New Zealand, BBus (Accounting)  
 Jenni joined the Cann Board as a director in August 2020. Jenni has senior executive experience in the medical and biotechnology sectors and is currently the Chief Financial Officer and Company Secretary of Mach7 Technologies Limited (ASX:M7T). Jenni served as director of Mach7 Technologies Limited from 11 November 2019 until 1 January 2020. She has previously held executive roles with Alchemia Limited (ASX:ACL) and Mesoblast Limited (ASX:MSB), as well as senior finance roles at ASX200 company Spotless Group, and in finance teams at Cadbury Schweppes plc, and international pharmaceutical group Medeva plc., based in London, UK. Jenni is a member of Chartered Accountants Australia & New Zealand; a Graduate of the Governance Institute of Australia; and has a Bachelor of Business Studies (majoring in accounting) from Massey University in New Zealand.

Director since 8 September 2020.

Other current directorships:  
 Former directorships (last 3 years):  
 Special responsibilities:  
 Interests in shares:

n/a  
 Mach7 Technologies Limited (ASX:M7T) (left 1 January 2020)  
 Chair of Audit and Risk Committee  
 125,000 fully paid ordinary shares

Name:  
 Title:  
 Qualifications:

**John Sharman**  
**Non-executive Director**

Bachelor of Economics from Monash University  
 Master of Applied Finance from Macquarie University.  
 Member of the Institute of Chartered Accountants in Australia.  
 Member of the Australian Institute of Company Directors.

Experience and expertise:

John joined the Cann Board as a director in April 2021. He has extensive international business experience as a Managing Director, CEO, CFO and non-executive director with public and private companies, including several ASX listed entities. John is not, and has not in the past three years been, a director of any other ASX-listed companies.

He has a comprehensive understanding of the medical manufacturing industry as well as the pharmaceutical and nutraceutical sectors. John is currently the CEO of Universal Biosensors Inc (ASX:UBI). Prior to that he served 10 years as CEO of Medical Developments International (ASX:MVP). Previous roles included Managing Director of CVC Venture Managers (private equity managers), Managing Director of Vita Life Sciences (ASX:VSC) and Cyclopharm (ASX:CYC), as well as roles at PriceWaterhouseCoopers, National Australia Bank and KPMG in both London and Melbourne. He has a Bachelor of Economics from Monash University and a Master of Applied Finance from Macquarie University. He is a Member of the Institute of Chartered Accountants in Australia and a Member of the Australian Institute of Company Directors.

Director since 27 April 2021.

Other current directorships:  
 Former directorships (last 3 years):  
 Interests in shares:

n/a  
 n/a  
 Nil



**Company secretary**

**Geraldine Farrell**

B.Sc., LLB, LLM (Intellectual Property), GAICD, Grad Dip ACG, FGIA, FCIS

A senior executive, lawyer and Company Secretary in listed environments (ASX and NASDAQ), with over 25 years' working as a corporate and technology/intellectual property lawyer (in private practice and in-house), seven years of Company Secretary experience, and more than 12 years of non-executive director experience. Gerry is a Fellow and Graduate of the Governance Institute of Australia, and a Fellow of the Institute of Chartered Secretaries and Administrators. She has an extensive background in corporate governance, capital raisings, and risk and compliance in the education and biotechnology sectors.

**Chief Executive Officer**

**Peter Crock**

B.Ag.Sci (Hons); MBA

Peter Crock joined Cann Group as CEO in 2016 and led the Company through its successful initial public offering and listing on the Australian Stock Exchange. An experienced executive across marketing, business and technology development, as well as mergers and acquisitions, Peter has overseen the growth and advancement of Cann Group to be a vertically integrated business with strong capabilities across genetics, cultivation, manufacturing and supply and a leader in the Australian medicinal cannabis industry. Peter previously held senior management roles during a three decade long career at global agribusiness company Nufarm Limited (ASX:NUF). Peter is also the inaugural Chairman of Australia's peak industry Group, Medicinal Cannabis Industry Australia, where he has led the development of an industry Code of Conduct and helped represent industry-related interests and issues to Government.

**Chief Financial Officer**

**Greg Bullock**

MAppFin, MPA, CFTP

A senior executive and finance professional, with over 30 years' experience, including 10 years in consumer durables and commodity products. Greg's recent experiences include Group Treasury Manager at Wilmar Sugar Australia Limited as part of the Executive Finance Team, P&O Maritime Services and Pacific Brands Holdings Limited (ASX:PBG).

**Dividends**

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

**Principal activities**

The principal activities of the Group during the year consisted of cultivation of medicinal cannabis for both medicinal and research purposes pursuant to the licences and permits issued to the Group; the development and manufacture (via third party arrangements) of finished product formulations; and the pursuit and execution of various supply agreements with third parties.

**Review of operations**

The 30 June 2021 financial year ("FY21") was a period of significant investment to support Cann's business and growth objectives. Substantial progress was achieved in relation to the development and acquisition of assets that are expected to generate value for shareholders over coming years. This included ongoing work on the Company's new cultivation and manufacturing facility at Mildura and the purchase of the Satipharm business, providing a proprietary platform for new product development and expansion into markets around the world.

The Company is seeking to establish and maintain a leadership position in Australia and to be a major producer and supplier to international markets, with a globally cost-competitive position and a strong pipeline of proprietary, differentiated products.

The Company's growth strategy is underpinned by four pillars:

1. Completion of a world-class cultivation and manufacturing facility at Mildura, providing scale and price competitive medicinal cannabis product for local and international markets.
2. Control and ownership of production supply chain by installing testing, extraction and manufacturing capabilities at the Mildura facility.
3. Integration and expansion of the Satipharm business and its patented GelPell technology to produce a differentiated product for global markets.
4. Leadership and investment in research and development initiatives to create more efficacious and differentiated products.

Cann's FY21 growth strategy was to progress the funding and construction of the Mildura facility, integrate the acquisition of the Satipharm business and complete shipments to international markets. The Directors believe that the achievements of FY21 demonstrated that this strategy was well implemented – generating breakthrough sales into European and Australian customers, progressing to the start of commissioning the Mildura facility, and successfully acquiring and integrating the Satipharm business, all whilst navigating through COVID-19.

The loss for the Group after providing for income tax was \$25.10 million for the year ended 30 June 2021 (2020: \$16.94 million).

The Group's basic and diluted loss per share is \$0.097 or 9.75 cents (2020: \$0.1191 or 11.91 cents).

The Weighted Average number of Shares used to calculate the basic and diluted earnings per share is 257,388,229 (2020: 142,187,418).

The net assets of the Group are \$91.87 million as at 30 June 2021 (2020: \$61.07 million).

#### **Production and sales**

Sales revenue increased by \$3.64 million to \$4.29 million for the year ended 30 June 2021 (30 June 2020: \$0.65 million)

Cultivation at the Company's Southern facility was unaffected by COVID-19 restrictions as the medicinal cannabis industry is classified as an essential service. The Company was able to continue harvesting and then utilise third party manufacturers to process raw material into various stages of resin, oils and finished product. The largest impact that COVID-19 has had on the business is through significant delays in various licensing and permitting processes that had to be met in order to ship product offshore.

Timelines have extended in relation to international regulatory submissions to open pathways for market release, and third-party manufacturing and starting material supplier issues (as announced on 29 April 2021) have both caused delays in shipping product to Cann's customers. These delays are temporary, and a clearer path to revenue receipts is anticipated following the initial shipments to Cann's local and export customers.

A strategic alliance was established with iuvo Therapeutics Limited ("iuvo") in Germany and some 20,000 bottles of cannabis extract have been shipped to iuvo during the reporting period. Those products have been GMP-released for sale in the German market and early indications with respect to sales by iuvo are promising. Despite regulatory delays due to COVID-19 the Company was also able to ship product to the Lyphe Group UK.

Supply agreements in the Australian market accelerated in the second half of the year. Contracts are now in place with multiple domestic B2B clients and first orders have been completed and shipped to all of them.

#### **Mildura facility**

Work recommenced on site at Mildura, as Qanstruct (principal contractor) returned to site in late February. The Dutch specialist contractors (with particular expertise in the construction of glasshouses) arrived on site in early-mid March and commenced planning and works with Qanstruct.

The analytical lab is completed and now undergoing commissioning. Completing the analytical lab is expected to save the Company considerable time delays and costs.



During the year, the Company determined to add large-scale extraction and Gelpell manufacturing capability to the Mildura facility. The extraction facility will allow for the dried cannabis flower to undergo extraction to a concentrated viscous extract, or 'resin', for further processing. The addition of a cannabis extraction capability to the manufacturing facility will provide the Company with end-to-end direct control of its supply chain and manufacturing requirements and will significantly lower manufacturing costs. Estimated cost savings of \$23 million (compared to current external cost base) are expected to be achieved by bringing this in-house when running at full capacity of 12,500kg. Pilot scale extraction equipment is scheduled to be installed and ready for Office of Drug Control (ODC) inspection (anticipated to occur in September) with cGMP qualification, inspection and certification expected to be complete by the end of 2021. Large scale extraction equipment is scheduled to be installed in November, with cGMP certification expected to occur a month or two after.

The installation of the Gelpell manufacturing line at Mildura is expected to save considerable time and costs. Extracted resin will be further processed into the patented micro-encapsulation form and in-house packaged, reducing the requirement to be manufactured at the Gelpell facility in Switzerland, resulting in an estimated 60% reduction in COGS for the Satipharm product. A pilot-scale Gelpell manufacturing line is expected to be installed, and qualification commenced, in October with the full-scale facility following in 2022.

The cultivation facility is expected to commence commissioning in the coming months with the first mother plants expected to arrive on site from Cann's Southern facility before the end of 2021. The Company expects to have the first stage of the Mildura facility fully commissioned in the first half of 2021, with subsequent ramp-up to an annual capacity of 12,500kg of raw flower.

During the period, the Company received licences issued under the Narcotics Drug Act in respect of the new Mildura facility. The licences relate to the research, cultivation, production, manufacturing, packaging, storage, transport, and disposal of medicinal cannabis in final dose and intermediate forms. Cann will apply for a permit to cultivate once the final inspection of the completed facility has been conducted by the ODC.

#### **Research and development**

Cann has an ongoing collaboration with Agriculture Victoria to develop novel genetics using accelerated breeding with Cann's existing genetics. Phenotypic trials have progressed with new genetics grown from seed. Genotypic analysis of the new lines has commenced and chemotypic analysis of the flowers is now underway. This data will be used to design a breeding plan that will lead to new lines with improved yields of cannabinoids and buds. Cann has also validated results from experiments performed by the NSW Department of Primary Industries to improve root production in a key cannabis cultivar. The improvement will now be transferred to Cann's commercial operations.

In March 2021, it was announced that Cann is partnering with the Olivia Newton-John Cancer Research Institute (ONJCRI), the La Trobe School of Cancer Medicine, and Austin Health, in a clinical trial to assess medicinal cannabis for symptom management in people with advanced cancer. The Phase I trial commenced in late September 2020 and trial outcomes are currently being reviewed, with patients having tolerated the treatment well, to date.

Phase I of the trial is focused on the titration and safety of administering this new formulation of medicinal cannabis in a controlled manner. Should the Phase I study demonstrate safety and tolerability of the drug, Phase II (a double blind, randomised, placebo-controlled trial) will see the enrolment of 108 participants with advanced cancers, subject to meeting trial specific eligibility criteria. The Phase II study will evaluate the efficacy of the drug by assessing global Quality of Life in these participants, as well as other domains including pain, anorexia, nausea, anxiety and sleep. For the purpose of these studies, Cann is supplying a locally grown and cultivated full spectrum cannabis extract that contains both cannabidiol (CBD) and tetrahydrocannabinol (THC) formulated into an oil that is taken up to three times a day.

In addition to the ONJCRI trial, Cann is also supporting a first of its kind study into severe Tourette's syndrome in children, which will be undertaken by the Murdoch Children's Research Institute located at Melbourne's Royal Children's Hospital.

Cann Group has its corporate office within the Research and Innovation precinct at La Trobe University, and is the lead commercial partner in the \$24 million La Trobe-led Australian Research Council (ARC) Industry Transformation Research Hub for Medicinal Agriculture (ARC MedAg Hub). The Hub combines academic and industry research and expertise to drive better cultivation, breeding and manufacturing practises to support Australia's medicinal agriculture industry and ultimately improve health outcomes for patients.

### **Funding**

A funding package for the first stage development of the Mildura facility was finalised during the year involving both debt and equity.

In August 2020 the Company raised \$40.2 million by way of an institutional placement of \$14.3 million and Share Purchase Plan of \$25.9 million. The Company received very strong support from investors and all shares were issued at a price of \$0.40 each.

In December 2020, the Company executed a debt facility of up to \$50 million from the National Australia Bank for the construction of the Mildura project. The debt facility is a standard form construction draw-down facility, which converts to a loan amortising over 8 years. The base interest rate will be the Bank Bill Swap Bid Rate (BBSY), a drawn margin rate of 3.20% p.a. and a facility fee of 1.80% p.a.

### **Acquisition of the Satipharm business**

On 10 March 2021, the Company announced the completion of an all-scrip acquisition of the Satipharm business from Harvest One for a total consideration of CAD\$3.25 million, including deferred consideration of up to CAD\$0.75 million. The initial payment of CAD\$2.5 million was completed by the issue of 4,278,615 new fully-paid ordinary shares in Cann at an issue price of \$0.602.

The acquisition of Satipharm gives the Company a differentiated product to offer the market. It includes exclusive use of the patented Gelpell manufacturing technique for cannabinoids that uses a micro-encapsulation technique that embeds the Active Pharmaceutical Ingredient (API) in small spheres, which are encapsulated inside a gut resistant hard-shell capsule. This allows the API to bypass the stomach acids and minimises first-pass metabolism in the liver that can destroy up to 95% of the cannabinoids before reaching the blood stream. The Gelpell process has been shown to be over three times more effective at getting cannabinoids into the blood stream compared to using standard oil-based formulations. The Gelpell delivery system also protects the API from deterioration from light, temperature and oxygen resulting in longer shelf life.

An existing Satipharm low CBD product is already sold in the UK through large pharmacy chains where CBD products are classified as wellness products not requiring a doctor's prescription. The Company expects to see sales of the product in this market accelerate with extra marketing support provided by Cann.

### **Application for S3 registration of Satipharm CBD capsules**

In February 2021, the Australian Government's Therapeutic Goods Administration (TGA) announced its decision to down-schedule certain low-dose CBD preparations from Schedule 4 (Prescription Medicine) to Schedule 3 (Pharmacist Only Medicine). Capitalising on Cann's Satipharm products, Cann is seeking to be one of the first companies to apply for the registration of a low-dose, CBD only capsule as a Schedule 3 product. Cann anticipates there will be a large patient demand for a TGA registered CBD medicine that is convenient to patients and demonstrates the highest standards of quality, safety and efficacy.

### **COVID-related impacts**

Throughout the year ended 30 June 2021 and to the date of this report, both the Australian and Global economies have experienced disruption related to COVID-19 triggered lockdowns and restrictions. The Group has not experienced a significant impact on its cultivation operations, however, COVID has had an impact on the timing of sales (with COVID-related delays affecting regulatory clearances) and on the logistics for sourcing overseas personnel with expertise in glasshouse construction for the Company's Mildura facility.

The Group did not receive any Government subsidies by way of Job Keeper.

The Group continues to manage its operations to navigate through the uncertainty that the COVID-19 pandemic has brought and will continue to adapt to address any further challenges which may arise.

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

On 17 July 2020, the Company announced Ms Jenni Pilcher was appointed to the Board of Directors subject to clearance by the Office of Drug Control. The appointment became effective on 8 September 2020.

On 23 July 2020, the Company issued 32,953,920 fully paid ordinary shares at an issue price of \$0.40 per share pursuant to an institutional placement of shares.

On 29 July 2020, the Company issued 17,185,723 fully paid ordinary shares at an issue price of \$0.34 per share pursuant to the conversion of 5,600,000 convertible notes, each with a face value of \$1.00 per note.

On 11 August 2020, the Company issued 103,846 fully paid ordinary shares at an issue price of \$0.65 as consideration for services provided during the March 2020 quarter by the CSIRO to the Company under a Research Services Umbrella Agreement.

On 11 August 2020, the Company issued 74,840 fully paid ordinary shares at an issue price of \$0.94 as consideration for services provided during the June 2020 quarter by the CSIRO to the Company under a Research Services Umbrella Agreement.

On 11 August 2020, the Company issued 1,983,890 fully paid ordinary shares at an issue price of \$0.465 pursuant to a share subscription deed dated 21 April 2020 between Zalm Therapeutics Limited (formerly Pure Cann NZ Limited) and Botanitech Pty Ltd. Under the agreement, Botanitech Pty Limited agreed to subscribe for ordinary shares in Zalm Therapeutics Limited and Zalm Therapeutics Limited agreed to subscribe for the Company's ordinary shares.

On 20 August 2020, the Company issued 64,744,452 fully paid ordinary shares at an issue price of \$0.40 pursuant to the share purchase plan announced on 17 July 2020.

On 14 September 2020, the Company announced the issuing of 145,007 options over ordinary shares which have an exercise price of \$0.945 and an expiry date of 31 March 2022, with those options having been issued on 8 April 2020 pursuant to the conversion of 100,000 convertible notes issued by the Company on 11 February 2020.

Also on 14 September 2020, the Company announced the issuing of a further 17,330,730 options over ordinary shares which have an exercise price of \$0.46 and expiry date of 31 March 2022, with those options having been issued on 29 July 2020 pursuant to the conversion of 5,600,000 notes in accordance with the terms of convertible notes issued by the Company on 11 February 2020.

On 15 September 2020, the Company issued 2,796,080 fully paid ordinary shares at an issue price of \$0.40 to Directors who had participated in the institutional placement, following receipt of shareholder approval for them to do so (under Listing Rule 10.11) at the General Meeting of the Company held on 7 September 2020.

On 30 September 2020, the Company issued 7,175,285 fully paid ordinary shares at an issue price of \$0.34 per share pursuant to the conversion of 2,300,000 convertible notes, each with a face value of \$1.00 per note.

Also, on 30 September 2020, the Company issued 7,175,285 options over ordinary shares which have an exercise price of \$0.46, and an expiry date of 31 March 2022. These options were issued pursuant to the conversion of 2,300,000 notes in accordance with the terms of convertible notes issued by the Company on 11 February 2020.

On 12 October 2020, the Company announced that its major shareholder Aurora Cannabis, exited its 11.84% ownership position in the Cann Group. The sale was part of Aurora's divestment of non-core assets.

The technical services agreement between Aurora & Cann remains active and work on Mildura facility with Aurora Larssen Projects is not impacted.

On 27 November 2020, the Company issued 75,000 fully paid ordinary shares at an issue price of \$0.42 per share as consideration for services provided during the September 2020 quarter by the CSIRO to the Company under a Research Services Umbrella Agreement.

On 8 January 2021, the Company announced the receipt of a \$3.2 million research and development (R&D) tax incentive refund pursuant to eligible R&D activities. The refund will be reinvested in the development of CAN's expansion, commercial activities and product portfolio.

On 11 January 2021, the Company issued 990,000 performance rights pursuant to the Performance Rights 2020 Series in accordance with the Company's Long Term Incentive Programme (LTI), approved by shareholders on 24 November 2020. Each right is over one fully paid ordinary share, subject to meeting defined performance objectives and the terms of the LTI.

On 12 January 2021, the Company issued 89,668 fully paid ordinary shares for no consideration in accordance with the employee share gift plan. The number of shares issued were based on the number of shares to be issued up to the value of \$1,000 per employee and with reference to the 5 day VWAP ending 11 January 2021, being \$0.6466. Shares issued pursuant to the share gift plan will be held in trust until the earlier of the termination of employment or three years from the date of issue.

On 28 January 2021, the Company issued 306,846 fully paid ordinary shares pursuant to the exercise of CANAF options with an exercise price of \$0.46 and an expiry date of 31 March 2022. The options had been issued by the Company following the conversion of convertible notes issued on 11 February 2020 into shares.

On 8 February 2021, the Company announced a cyber security incident in respect of \$3.6 million in payments intended for an overseas contractor in relation to works to be undertaken at the Mildura facility being unlawfully received by an unknown third party.

On 29 March 2021, the Company announced the commencement of civil proceedings in the High Court of the Hong Kong Special Administrative Region against a third-party defendant Er Ya Trade Ltd (the defendant) seeking recovery of EURO 2.25 million, the amount subject to the aforementioned cyber security incident. An injunction was granted to freeze certain of the defendant's assets and compel disclosure of ancillary information relating to assets held by it. On 9 July 2021, Cann announced that it had received \$1.2 million in connection with those court proceedings.

On 19 February 2021, the Company issued 113,157 fully paid ordinary shares at an issue price of \$0.57 per share as consideration for services provided during the December 2020 quarter by the CSIRO to the Company under a Research Services Umbrella Agreement.

On 19 February 2021, the Company issued 3,070,791 fully paid ordinary shares pursuant to the exercise of options with an exercise price of \$0.46 and an expiry date of 31 March 2022. The options had been issued by the Company following the conversion of convertible notes issued on 11 February 2020 into shares.

On 10 March 2021, the Company announced the completion of an all-scrip acquisition of the Satipharm business from Harvest One for a total consideration of CAD\$3.25 million, including deferred contingent consideration of up to CAD\$0.75 million. The initial payment of CAD\$2.5 million was completed by the issue of 4,278,615 new fully paid ordinary shares in Cann at \$0.602.

The deferred contingent consideration of up to CAD\$0.75 million is payable through the issuance of further new Cann ordinary shares or cash (at Cann's discretion), subject to the satisfaction of the:

- CAD\$0.750 million following delivery of the Gelpell Manufacturing Equipment in accordance with the required specifications and satisfactory working conditions to Cann's nominated facility in Australia;
- first earn out payment of up to CAD\$0.250 million linked to an agreed Revenue of the Satipharm business for the 6 months to 30 June 2021 set out in the transaction document – if the actual Revenue for the 6 months to 30 June 2021 is below the agreed Revenue for that period, the first earn out payment will be effectively reduced to an amount equal to an agreed fraction of the actual Revenue for that period set out in the transaction document;
- second earn out payment of up to CAD\$0.250 million linked to Gross Profit of the Satipharm business for the financial year ended 30 June 2021 set out in the transaction document – if the actual Gross Profit for the financial year ended 30 June 2021 is below the agreed Gross Profit for that period, the second earn out payment will be effectively reduced to an amount equal to an agreed multiple of the actual Gross Profit for that period set out in the transaction document;
- third earn out payment payable of up to CAD\$0.250 million linked to an agreed EBITDA loss of the Satipharm business for the 6 months to 30 June 2021 set out in the transaction document – if the actual EBITDA loss for the 6 months to 30 June 2021 is greater than the agreed EBITDA loss for that period, the third earn out payment will be effectively reduced by CAD\$1 for every CAD\$1 that the actual EBITDA loss for that period is greater than the agreed EBITDA loss for that period.

If the deferred contingent consideration above is settled in shares, the 30 day VWAP prior to delivery of Gelpell manufacturing equipment and 30 day VWAP prior to 30 June 2021 for the three earnout clauses shall be applied in determining the number of fully paid ordinary shares to be issued.

On the acquisition date, management assessed that the hurdles would not be met and accordingly no liability was recorded in the accounts for the deferred contingent consideration.

In note 24 the Group has disclosed a capital commitment in respect of the delivery of the Gelpell Manufacturing Equipment in accordance with the required specifications and satisfactory working conditions to Cann's Mildura facility in Australia, settlement of which may be performed in shares. If the commitment is settled in shares, the number and deemed price of fully paid ordinary shares to be issued will be determined on the basis of the 30 day VWAP prior to the delivery of the Gelpell manufacturing equipment.

On 27 April 2021, Mr John Sharman was appointed to the Board of Directors, the appointment taking effect immediately.

On 14 May 2021, the Company issued 67,543 fully paid ordinary shares at an issue price of \$0.57 per share as consideration for services provided during the March 2021 quarter by the CSIRO to the Company under a Research Services Umbrella Agreement.

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

#### **Future developments, prospects and business strategies**

Other than matters referred to elsewhere in this report and above, further information as to likely developments in the operations of the Group and the expected results of operations have not been included in this report as the Directors believe it would be likely to result in unreasonable prejudice to the Group.

#### **Environmental regulation**

The Group's operations comply with all relevant environmental standards and regulations.

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

The Group announced on 26 July an institutional placement (Placement) and a Share Purchase Plan (SPP) (which will be subject to shareholder approval) to raise a total of \$20 million (Capital Raising) at a price of \$0.275 per fully paid ordinary share. The proceeds from the Capital Raising will be used to invest in initiatives which are expected to deliver substantial cost savings as the Group moves to large scale production with the commissioning of its new manufacturing facility near Mildura. Funding will be used to expedite and strengthen its in-house extraction, laboratory and manufacturing capabilities, which are expected to de-risk the Group's supply chain and lower COGS by reducing the Group's reliance on third party manufacturers and service providers. \$8.9 million of the first tranche has been received by the Group on 2 of August 2021. Receipt of the remaining funds from the Placement relate to the proposed issue of shares under the Placement to Directors and related entities, which requires shareholder approval under ASX Listing Rule 10.11. A meeting of shareholders is scheduled to occur on 7 September 2021.

Proceeds of the Capital Raising will also be used to expand and grow the Satipharm business, including fast-tracking the preparation of applications to register Satipharm's low-dose CBD capsules on the Australian Register of Therapeutic Goods classed as Schedule 3 (Pharmacist Only Medicine). Satipharm's low-dose CBD capsules incorporate proprietary "Gelpell" technology and access a significant market opportunity.

On 9 July 2021, Cann announced that it had received \$1.2 million in connection with those court proceedings regarding the cybercrime court action announced to the market on 29 March 2021.

No other matter or circumstance has arisen since 30 June 2021 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

#### **Meetings of Directors**

	<b>Board Meetings Held</b>	<b>Board Meetings Attended</b>	<b>Audit &amp; Risk Committee Meetings Held</b>	<b>Audit &amp; Risk Committee Meetings Attended</b>	<b>Remuneration Committee Meetings Held</b>	<b>Remuneration Committee Meetings Attended</b>	<b>Capital Committee Meetings Held</b>	<b>Capital Committee Meetings Attended</b>
Allan McCallum AO	18	18	4	4	1	1	1	1
Philip Jacobsen	18	15	4	4	1	1	-	-
Douglas Rathbone AM	18	17	-	-	1	1	1	1
Geoff Pearce	18	18	-	-	1	1	1	1
Jenni Pilcher (appointed 8 September 2020)	14	14	3	3	-	-	-	-
John Sharman (appointed 27 April 2021)	3	2	-	-	-	-	-	-

### Remuneration report (audited)

This Remuneration Report outlines the Company's remuneration strategy for the financial year ended 30 June 2021 and provides detailed information on the remuneration outcomes for the year for the Directors, the Chief Executive Officer (CEO) and other Key Management Personnel.

For the purpose of this report, Key Management Personnel are defined as persons having authority and responsibility for planning, directing and controlling the Group's activities, directly or indirectly, and include all Directors of the Company.

The Directors of the Company are pleased to present the Remuneration Report (Report) for the Company and its subsidiaries (Group) for the financial year ended 30 June 2021. This Report forms part of the Directors' Report and has been prepared and audited in accordance with the requirements of the Corporations Act 2001.

### Key Management Personnel

The following changes are noted to the KMP for the year ended 30 June 2021:

- Ms Jenni Pilcher was appointed as a Non-executive Director, effective 8 September 2020
- Mr John Sharman was appointed as a Non-executive Director, effective 27 April 2021

The KMP whose remuneration is disclosed in this year's report are:

#### Non-executive Directors

<i>Name</i>	<i>Title</i>
A McCallum AO	Chairman
P Jacobsen	Deputy Chairman
D Rathbone AM	Non-executive Director
G Pearce	Non-executive Director
J Pilcher (appointed 8 September 2020)	Non-executive Director
J Sharman (appointed 27 April 2021)	Non-executive Director

#### Chief Executive Officer (CEO) and Disclosed Executives

<i>Name</i>	<i>Title</i>
P Crock	Chief Executive Officer
S Duncan	Chief Operating Officer
G Aldred	Chief Projects & Information Officer
G Farrell	Company Secretary and Chief Compliance Officer
G Bullock	Chief Financial Officer



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

**Remuneration philosophy**

The Remuneration Committee is responsible for making recommendations to the Board on remuneration policies and packages applicable to Directors, the CEO and other Key Management Personnel and consists of three of the six members of the Board. The Remuneration Committee is subject to the Company's Remuneration Policy, with that policy having the objectives to provide a competitive, benchmarked and flexible structure, being tailored to the specific circumstances of the Company and which reflect the person's duties and responsibilities so as to attract, motivate and retain people of the appropriate quality.

The Company's Remuneration Policy is reviewed at least once a year and is subject to amendment to ensure it reflects best market practice. Remuneration levels are competitively set to attract appropriately qualified and experienced Directors and executives. The Remuneration Committee obtains market data on remuneration levels. The remuneration packages of the Chief Executive Officer and Senior Executives may include a short-term incentive component that is based on specific Company goals pertaining to financial and operational performance. The Chief Executive Officer and Senior Executives may also be invited to participate in the Company's Long-term Incentive Plan, the benefits of which are conditional upon the Company achieving certain performance criteria, the details of which are outlined below.

In accordance with the ASX Corporate Governance Principles and Recommendations, the structure of Non-executive Director remuneration is separate from executive remuneration.

**Relationship between the Remuneration Policy and Company performance**

Currently, the consolidated entity assesses its performance from achievement of operational goals and shareholder value. The performance measures for both the Company's Short-term Incentive Plan (STI Plan) and Long-term Incentive Plan (LTI Plan) will be tailored to align at-risk remuneration and performance hurdle thresholds to the delivery of operational and future financial objectives and sustained shareholder value growth.

**Components of remuneration – Non-executive Directors**

The Constitution of the Company and the ASX Listing Rules require that the aggregate remuneration of non-executive Directors shall be determined from time to time by a resolution approved by shareholders at a general meeting. Currently the aggregate remuneration threshold is set at \$500,000 per annum as approved by shareholders at the AGM held on 14 November 2018. Legislated superannuation conditions made on behalf of non-executive Directors are included within the aggregate remuneration threshold.

Non-executive Directors receive a cash fee for their service and have no entitlement to any performance-based remuneration or any participation in any share-based incentive schemes. Presently no additional fee is paid to non-executive Directors for being a member of any Board committees.

Fees payable to the non-executive Directors for the 2021 financial year inclusive of superannuation contributions were as follows:

	\$
Chairman	120,000
Non-executive Directors	60,000
Chair of Audit and Risk Committee (in addition to Non-executive Director fee)	15,000

## Components of remuneration – Chief Executive Officer and other senior executives

### (a) Structure

The Company aims to reward the Chief Executive Officer and Senior Executives with a level and mix of remuneration commensurate with their position and responsibilities within the Group, so as to:

- reward them for Company and individual performance against targets set by reference to appropriate benchmarks and key performance indicators;
- align their interest with those of shareholders; and
- ensure total remuneration is competitive by market standards.

Remuneration consists of both fixed and variable remuneration components. The variable remuneration consists of the STI Plan and the LTI Plan.

The proportion of fixed and variable remuneration is established for the Chief Executive Officer by the Board and for each Senior Executive by the Board following recommendations from the Chief Executive Officer and the Remuneration Committee.

The Chief Executive Officer's and Senior Executives' remuneration packages are all subject to Board approval.

### (b) Fixed remuneration

The fixed remuneration component of the Chief Executive Officer and Senior Executives' total remuneration package is expressed as a total package consisting of base salary and statutory superannuation contributions.

Fixed remuneration reflects the complexity of the individual's role and their experience, knowledge and performance. Internal and external benchmarking is regularly undertaken, and fixed remuneration levels are set with regard to the external market median, with scope for incremental increase for superior performance.

Fixed remuneration is reviewed annually, taking into account the performance of the individual and the Group. There are no guaranteed increases to fixed remuneration in any contracts of employment.

The Chief Executive Officer and Senior Executives have the option to receive their fixed annual remuneration in cash and a limited range of prescribed fringe benefits. The total cost of any remuneration package, including fringe benefits tax, is taken into account in determining an employee's fixed annual remuneration.

### (c) Variable remuneration – STI Plan

The STI Plan component of an Executive's total remuneration is an annual cash incentive plan. The STI Plan links a portion of executive remuneration opportunity to specific financial and non-financial measures.

From a governance perspective, all performance measures under the STI Plan must be clearly defined and measurable. The Remuneration Committee approves the targets and assesses the performance outcome of the Chief Executive Officer. The Board and the Chief Executive Officer set the targets and assess the performance of Senior Executives. The Board approves STI Plan payments for the Chief Executive Officer and Senior Executives. Under the STI Plan, the Board has discretion to adjust STI Plan outcomes based on the achievements which are consistent with the Group's strategic priorities and, in the opinion of the Board, enhance shareholder value.

One hundred percent (100%) of awarded STI is paid in cash at a time determined by the Board, however for future years the timing will be upon Board approval of the audited year-end accounts. In future years the financial performance measures will be assessed and, for the Executives to qualify for a payment of an STI, a pre-agreed level of Group profit must first be achieved. Once this has been achieved, the level of payment the Executive receives is determined based on the achievement of their pre-determined financial and non-financial measures.

For the financial year ended 30 June 2021, required performance achievements for the STI Plan were not obtained and therefore no STI payments were awarded.

**(d) Variable remuneration- LTI Plan**

The long-term incentive plan (LTI Plan) component of an Executive's total remuneration is based on performance-based rights over the ordinary shares of the Company. The LTI Plan links a portion of executive remuneration opportunity to specific financial and non-financial measures. The LTI Plan was approved at the Annual General Meeting on 24 November 2020 and currently incorporates measures linked to share price performance, completion of business critical operational and strategic objectives whilst also considering term of service.

**Chief Executive Officer (CEO) and Disclosed Executives**

Current Name	LTI range calculated on fixed annual remuneration
P. Crock	20% - 40%
S. Duncan	10% - 20%
G. Aldred	10% - 20%
G. Farrell	10% - 20%
G. Bullock	10% - 20%

**(e) Contract for services – Chief Executive Officer**

The structure of the Chief Executive Officer's remuneration is in accordance with his employment agreement. The Chief Executive Officer's employment agreement is for an indefinite term. The Company may terminate the agreement by providing four months' notice and the Chief Executive Officer may terminate the agreement by providing four months' notice. There are no termination benefits beyond statutory leave and superannuation entitlements associated with termination in accordance with the above notice requirements or in circumstances where notice is not required pursuant to the employment agreement.

The Chief Executive Officer is entitled to participate in the Company's long-term incentive ("LTI") scheme, further details of the LTI scheme are outlined in section (d) of "Components of remuneration – Chief Executive Officer and other senior executives".

**(f) Contract for services – senior executives**

The terms on which the senior executives are engaged provide for termination by either the executive or the Company on notice periods ranging from three to four months' notice, or the minimum entitlements contained in the National Employment Standards – whichever is greater.

The senior executives are entitled to participate in the Company's LTI Plan, approved at the Annual General Meeting on 24 November 2020. Further details of the LTI Plan are outlined in section (d) of "Components of remuneration – Chief Executive Officer and other senior executives".

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

**Voting and comments made at the Company's 2020 Annual General Meeting ('AGM')**

At the 24 November 2020 AGM, 96.73% of the votes received supported the adoption of the remuneration report for the year ended 2020. The Company did not receive any specific feedback at the AGM regarding its remuneration practices.

**Additional information**

The performance of the Group for the five years to 30 June 2021 are summarised below:

	2021 \$000	2020 \$000	2019 \$000	2018 \$000	2017 \$000
Sales revenue	4,293	647	2,348	1,503	8
Net loss before income tax	(25,103)	(16,939)	(10,926)	(4,726)	(2,588)
Net loss after income tax	(25,103)	(16,939)	(10,926)	(4,726)	(2,588)
Loss per share (cents)	(9.75)	(11.91)	(7.82)	(3.8)	(5.1)

## Details of remuneration

### Amounts of remuneration

During the course of the year the Key Management Personnel was defined as the Directors; the Chief Executive Officer; Chief Operations Officer; Chief Financial Officer; Company Secretary & Chief Compliance Officer; and Chief Projects & Information Officer.

		Salary and Fees \$	STI cash bonus \$	Post- employment benefits Superannuation \$	Equity settled share-based payments \$	Total \$
<i>Non-executive Directors</i>						
A. McCallum AO	2021	109,589	-	10,411	-	120,000
	2020	109,589	-	10,411	-	120,000
P. Jacobsen	2021	54,795	-	5,205	-	60,000
	2020	54,795	-	5,205	-	60,000
D. Rathbone AM	2021	54,795	-	5,205	-	60,000
	2020	54,795	-	5,205	-	60,000
G. Pearce	2021	54,795	-	5,205	-	60,000
	2020	54,795	-	5,205	-	60,000
J. Pilcher	2021	56,479	-	5,365	-	61,844
	2020	-	-	-	-	-
J. Sharman	2021	9,740	-	925	-	10,665
	2020	-	-	-	-	-
N. Belot (i)	2021	-	-	-	-	-
	2020	29,090	-	-	-	29,090
<i>Other Key Management Personnel and Executive Officers</i>						
P. Crock	2021	291,191	-	22,278	51,500	364,969
	2020	277,769	21,199	25,387	167,710	492,065
S. Duncan	2021	265,731	-	21,971	26,250	313,952
	2020	267,885	6,060	24,499	-	298,444
G. Aldred	2021	200,731	-	19,069	26,250	246,050
	2020	196,023	8,200	18,622	-	222,845
G. Farrell	2021	197,154	-	18,629	26,250	242,033
	2020	148,204	-	14,079	-	162,283
G Bullock	2021	217,192	-	20,174	26,250	263,616
	2020	76,535	-	7,309	-	83,844
<b>Total</b>	<b>2021</b>	<b>1,512,192</b>	<b>-</b>	<b>134,437</b>	<b>156,500</b>	<b>1,803,129</b>
<b>Total</b>	<b>2020</b>	<b>1,269,480</b>	<b>35,459</b>	<b>115,922</b>	<b>167,710</b>	<b>1,588,571</b>
<i>Disclosed Executives – Former</i>						
R. Baker (ii)	2021	-	-	-	-	-
	2020	303,522	7,201	8,045	-	318,768
R. Dahiya (iii)	2021	-	-	-	-	-
	2020	115,868	-	10,392	-	126,260
N. Gripper (iv)	2021	-	-	-	-	-
	2020	292,463	8,760	25,350	-	326,573
<b>Total</b>	<b>2021</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total</b>	<b>2020</b>	<b>711,853</b>	<b>15,961</b>	<b>43,787</b>	<b>-</b>	<b>771,601</b>

(i) N. Belot resigned on 16 December 2019

(ii) R. Baker resigned on 6 December 2019

(iii) R. Dahiya resigned on 28 April 2020

(iv) N. Gripper resigned on 12 June 2020

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

Name	Fixed remuneration		At risk - STI		At risk - LTI	
	30 June 2021	30 June 2020	30 June 2021	30 June 2020	30 June 2021	30 June 2020
<i>Non-Executive Directors:</i>						
A. McCallum AO	100%	100%	-	-	-	-
P. Jacobsen	100%	100%	-	-	-	-
D. Rathbone AM	100%	100%	-	-	-	-
G. Pearce	100%	100%	-	-	-	-
J. Pilcher	100%	100%	-	-	-	-
J. Sharman	100%	100%	-	-	-	-
N. Belot (i)	-	100%	-	-	-	-
<i>Other Key Management Personnel:</i>						
P. Crock	86%	62%	-	4%	14%	34%
S. Duncan	92%	98%	-	2%	8%	-
G. Aldred	90%	96%	-	4%	10%	-
G. Farrell	90%	100%	-	-	10%	-
G. Bullock	90%	100%	-	-	10%	-
R. Baker(ii)	-	98%	-	2%	-	-
R. Dahiya (iii)	-	100%	-	-	-	-
N. Gripper (iv)	-	97%	-	3%	-	-

(i) N. Belot resigned on 16 December 2019

(ii) R. Baker resigned on 6 December 2019

(iii) R. Dahiya resigned on 28 April 2020

(iv) N. Gripper resigned on 12 June 2020

#### **Additional disclosures relating to Key Management Personnel**

##### **Equity holdings**

The number of shares in the Company held during the financial year by each Director and other members of Key Management Personnel of the Group, including their personally related parties, is set out below:

	Balance as at 1 July 2020	Balance as at date of appointment (if applicable)	Received as part of remuneration	Acquisitions, disposals or transfers*	Balance at resignation date (if applicable)	Balance at 30 June 2021	Balance held nominally
<i>Non-Executive Directors:</i>							
A McCallum AO	5,580,000	-	-	575,000	-	6,155,000	-
P Jacobsen	4,094,518	-	-	2,225,000	-	6,319,518	-
D Rathbone AM	2,331,185	-	-	490,395	-	2,821,580	-
G Pearce	1,554,195	-	-	200,000	-	1,754,195	-
J Pilcher	-	125,000	-	-	-	125,000	-
J Sharman	-	-	-	-	-	-	-
<i>Other Key Management Personnel:</i>							
P Crock	340,852	-	1,546	62,500	-	404,898	1,000,000
S Duncan	-	-	1,546	25,000	-	26,546	-
G Aldred	1,107	-	1,546	27,500	-	30,153	-
G Farrell	-	-	1,546	25,000	-	26,546	-
G Bullock	-	-	1,546	25,000	-	26,546	-
	<u>13,901,857</u>	<u>125,000</u>	<u>7,730</u>	<u>3,655,395</u>	<u>-</u>	<u>17,689,982</u>	<u>1,000,000</u>

Each employee received \$1,000 of gift shares and these amounts are included in the amounts disclosed as shares received as part of remuneration in the table above.

*Performance rights holdings*

The number of performance rights over ordinary shares in the Company held during the financial year by each Director and other members of Key Management Personnel of the Group, including their personally related parties, is set out below:

	Balance at the start of the year	Granted	Vested	Expired/ forfeited/ other	Balance at the end of the year
<i>Performance rights over ordinary shares</i>					
P. Crock	1,000,000	200,000	-	(1,000,000)	200,000
S. Duncan	-	100,000	-	-	100,000
G. Bullock	-	100,000	-	-	100,000
G. Aldred	-	100,000	-	-	100,000
G. Farrell	-	100,000	-	-	100,000
	1,000,000	600,000	-	(1,000,000)	600,000

The terms and conditions of each grant of performance rights over ordinary shares affecting remuneration of Directors and other Key Management Personnel in this financial year or future reporting years are as follows:

Name	Number of rights granted	Grant date	Expiry date	Share price hurdle for vesting	Fair value per right at grant date
<i>Performance Rights Class C</i>					
P. Crock	250,000	17 November 2017	19 January 2021	\$1.00	\$2.46
P. Crock	350,000	17 November 2017	19 January 2021	\$1.50	\$2.46
P. Crock	400,000	17 November 2017	19 January 2021	\$2.00	\$2.46
<i>Performance Rights 2020 Series</i>					
P. Crock	200,000	24 November 2020	11 January 2024	\$0.00	\$0.50
S. Duncan	100,000	24 November 2020	11 January 2024	\$0.00	\$0.50
G. Aldred	100,000	24 November 2020	11 January 2024	\$0.00	\$0.50
G. Farrell	100,000	24 November 2020	11 January 2024	\$0.00	\$0.50
G. Bullock	100,000	24 November 2020	11 January 2024	\$0.00	\$0.50

The Performance Rights Class C expired during the financial year.

The Performance Rights 2020 Series vest upon final commissioning of the first stage of the Group's Mildura facility.

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

**Shares under option**

Grant Date	Expiry date	Exercise Price (\$)	Number under option
8 April 2020	31 March 2022	0.945	145,007
29 July 2020	31 March 2022	0.460	13,808,086
30 September 2020	31 March 2022	0.460	7,175,285

**Shares issued on the exercise of options**

The following ordinary shares of Cann Group Limited were issued during the year ended 30 June 2021 and up to the date of this report on the exercise of options granted:

Date options granted	Exercise Price (\$)	Number of shares issued
29 July 2020	\$0.46	3,377,637



### Shares under performance rights

Unissued ordinary shares of Cann Group Limited under performance rights at the date of this report are as follows:

Grant date	Expiry date	Number under rights
11 January 2021	11 January 2024	990,000

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 performance rights

There were no ordinary shares of Cann Group Limited issued on the exercise of performance rights during the year ended 30 June 2021 and up to the date of this report.

### Indemnifying officers and auditors

No indemnities have been given, however, a Directors and Officers insurance premium of \$307 thousand has been paid during the year for any person who is or has been an officer of the Group. No indemnities have been given during or since the end of the year for any person who has been an auditor of the Group.

### Proceedings on behalf of the Group

There were two court proceedings issued by the Group during the year, both of which have now been completed.

- On 16 February 2021, an application by the Company to the Victorian Registry of the Federal Court of Australia was heard to rectify the non-issue of a cleansing notice for the issue of 306,846 ordinary shares in the Company on 28 January 2021. The court granted the orders sought by the Company and the matter is now closed.
- On 29 March 2021, the Company announced the commencement of civil proceedings in the High Court of the Hong Kong Special Administrative Region against a third-party defendant Er Ya Trade Ltd (the defendant) seeking recovery of EURO 2.25 million, the amount subject to the aforementioned cyber security incident. An injunction was granted to freeze certain of the defendant's assets and compel disclosure of ancillary information relating to assets held by it. On 9 July 2021, Cann announced that it had received \$1.2 million in connection with those court proceedings. This matter is now closed.

There were no other proceedings during the year.

### Rounding of amounts

The Company is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

### Auditor

William Buck Pty Ltd continues in office in accordance with section 327 of the Corporations Act 2001.

#### Non-audit services

The Company's Audit and Risk Committee (Committee) is responsible for the maintenance of audit independence. Specifically, the Committee Charter ensures the independence of the auditor is maintained by:

- limiting the scope and nature of non-audit services that may be provided; and
- requiring that permitted non-audit services must be pre-approved by the Chairman of the Committee.

During the year William Buck, the Group's auditor, has performed certain other services in addition to the audit and review of the financial statements. The Board has considered the non-audit services provided during the year by the auditor and in accordance with the advice provided by the Committee, is satisfied that the provision of those non-audit services during the year by the auditor is compatible with, and did not compromise, the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- All non-audit services were subject to the corporate governance procedures adopted by the Group and have been reviewed by the Committee to ensure they do not impact the integrity and objectivity of the auditor; and
- The non-audit services provided do not undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants (including Independence Standards) as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Group, acting as an advocate for the Group or jointly sharing risks and rewards.

Details of the amounts paid to the auditor of the Group, William Buck, for audit and non-audit services provided during the year are set out in note 11

#### 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.

#### CEO and CFO declaration

The CEO and CFO have given a declaration to the Board concerning the Group's financial statements under section 295A(2) of the *Corporations Act 2001* and recommendations 4.2 and 7.2 of the ASX Corporate Governance Council Principles of Good Corporate Governance and Best Practice Recommendations in regards to the integrity of the financial statements.

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



Allan McCallum AO  
Chairman

23 August 2021



**AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE  
CORPORATIONS ACT 2001 TO THE DIRECTORS OF CANN GROUP LIMITED**

I declare that, to the best of my knowledge and belief during the year ended 30 June 2021 there have been:

- no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- no contraventions of any applicable code of professional conduct in relation to the audit.

*William Buck*

**William Buck Audit (VIC) Pty Ltd**  
ABN: 59 116 151 136

*A. A. Finnis*

**A. A. Finnis**  
Director

Melbourne, 23 August 2021

**ACCOUNTANTS & ADVISORS**

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[williambuck.com](http://williambuck.com)

	Note	30 June 2021 \$'000	30 June 2020 \$'000
<b>Revenue from customer contracts</b>	5	4,293	647
Other income	5	4,275	1,215
<b>Total revenue and other income</b>		<u>8,568</u>	<u>1,862</u>
<b>Expenses</b>			
Administration and corporate costs	6	(23,128)	(13,846)
Research and development costs		(2,031)	(1,283)
Fair value adjustment of biological assets		(48)	(641)
Depreciation and amortisation expense		(2,631)	(2,160)
<b>Total expenses</b>		<u>(27,838)</u>	<u>(17,930)</u>
<b>Loss before finance costs, investment loss, and income tax expense</b>		(19,270)	(16,068)
Finance costs		(4,151)	(869)
Loss on fair value of investment	15	(1,682)	-
<b>Loss before income tax expense</b>		(25,103)	(16,937)
Income tax expense		-	-
<b>Loss after income tax expense for the year</b>		(25,103)	(16,937)
<b>Other comprehensive loss</b>			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Foreign currency translation		(42)	-
<b>Other comprehensive loss for the year, net of tax</b>		(42)	-
<b>Total comprehensive loss for the year</b>		<u>(25,145)</u>	<u>(16,937)</u>
		<b>Cents</b>	<b>Cents</b>
Basic loss per share	9	(9.75)	(11.91)
Diluted loss per share	9	(9.75)	(11.91)

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

	Note	30 June 2021 \$'000	30 June 2020 \$'000
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents		3,105	1,554
Trade and other receivables	7	4,196	92
Prepayments	8	1,896	842
Inventories	12	12,066	9,433
Biological assets		829	610
<b>Total current assets</b>		<b>22,092</b>	<b>12,531</b>
<b>Non-current assets</b>			
Property, plant and equipment	13	75,789	60,891
Intangible assets	14	2,046	828
Financial assets at fair value through profit or loss	15	1,136	1,010
Rental bonds		85	85
Right-of-use assets	16	644	1,058
<b>Total non-current assets</b>		<b>79,700</b>	<b>63,872</b>
<b>Total assets</b>		<b>101,792</b>	<b>76,403</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	17	8,333	5,527
Contract liabilities		141	-
Lease liability	19	409	485
Provisions	18	766	478
<b>Total current liabilities</b>		<b>9,649</b>	<b>6,490</b>
<b>Non-current liabilities</b>			
Lease liability	19	271	642
Convertible notes	20	-	8,195
<b>Total non-current liabilities</b>		<b>271</b>	<b>8,837</b>
<b>Total liabilities</b>		<b>9,920</b>	<b>15,327</b>
<b>Net assets</b>		<b>91,872</b>	<b>61,076</b>
<b>Equity</b>			
Issued capital	21	149,673	97,137
Reserves	22	3,363	2,143
Accumulated losses		(61,164)	(38,204)
<b>Total equity</b>		<b>91,872</b>	<b>61,076</b>

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

	Issued capital \$'000	Share based payments Reserves \$'000	Accumulated losses \$'000	Total equity \$'000
Balance at 1 July 2019	96,502	1,975	(21,179)	77,298
Adjustment for change in accounting policy - AASB 16 Leases	-	-	(88)	(88)
Balance at 1 July 2019 - restated	96,502	1,975	(21,267)	77,210
Loss after income tax expense for the year	-	-	(16,937)	(16,937)
Other comprehensive income for the year, net of tax	-	-	-	-
Total comprehensive loss for the year	-	-	(16,937)	(16,937)
<i>Transactions with owners in their capacity as owners:</i>				
Contributions of equity, net of transaction costs (note 21)	635	-	-	635
Share-based payments	-	168	-	168
Balance at 30 June 2020	97,137	2,143	(38,204)	61,076

	Issued capital \$'000	Share based payments reserve \$'000	Foreign currency translation reserve \$'000	Accumulated losses \$'000	Total equity \$'000
Balance at 1 July 2020	97,137	2,143	-	(38,204)	61,076
Loss after income tax expense for the year	-	-	-	(25,103)	(25,103)
Other comprehensive loss for the year, net of tax	-	-	(42)	-	(42)
Total comprehensive loss for the year	-	-	(42)	(25,103)	(25,145)
<i>Transactions with owners in their capacity as owners:</i>					
Contributions of equity, net of transaction costs (note 21)	52,536	3,155	-	-	55,691
Share-based payments	-	250	-	-	250
Transfer - expiry of Performance Rights Class C	-	(2,143)	-	2,143	-
Balance at 30 June 2021	149,673	3,405	(42)	(61,164)	91,872

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



	<b>Note</b>	<b>30 June 2021</b>	<b>30 June 2020</b>
		<b>\$'000</b>	<b>\$'000</b>
<b>Cash flows from operating activities</b>			
Receipts from customers		1,484	1,671
Payments to suppliers and employees		(26,168)	(20,505)
Interest received		41	263
Other income received		3,813	952
<b>Net cash used in operating activities</b>	<b>26</b>	<b>(20,830)</b>	<b>(17,619)</b>
<b>Cash flows from investing activities</b>			
Payments for investments		(1,025)	-
Payments for property, plant and equipment	13	(15,712)	(33,122)
Payments for intangibles	14	(558)	(1,240)
Proceeds from disposal of investments		211	-
<b>Net cash used in investing activities</b>		<b>(17,084)</b>	<b>(34,362)</b>
<b>Cash flows from financing activities</b>			
Proceeds from issue of shares	21	40,198	-
Proceeds from issue of options	22	1,553	-
Proceeds from issues of convertible notes	20	-	8,000
Costs of issuing convertible notes		-	(442)
Share issue transaction costs	21	(1,839)	-
Repayment of lease liabilities		(447)	(411)
<b>Net cash from financing activities</b>		<b>39,465</b>	<b>7,147</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>1,551</b>	<b>(44,834)</b>
<b>Cash and cash equivalents at the beginning of the financial year</b>		<b>1,554</b>	<b>46,388</b>
<b>Cash and cash equivalents at the end of the financial year</b>		<b>3,105</b>	<b>1,554</b>

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

**Note 1. Corporate information**

These are the financial statements of Cann Group Limited (Company) and its subsidiaries, including Cannproducts Pty Ltd, Cannoperations Pty Ltd, Cann IP Pty Ltd, Botanitech Pty Ltd, all incorporated and domiciled in Victoria, Australia and the Satipharm business, comprising Satipharm Europe, Satipharm Limited, Satipharm AG, Satipharm Australia Pty Ltd, Satipharm Canada Limited and Phytotech Therapeutics Ltd (together, the Group). Cann Group Limited is an ASX-listed public company incorporated and domiciled in Victoria, Australia.

These financial statements are for the year ended 30 June 2021. Unless otherwise stated, all amounts are presented in thousands of \$AUD (\$'000), which is the functional and presentation currency of all entities in the Group with the exception of the Satipharm business, whose functional currency is the Euro.

The financial statements were authorised for issue by the Directors on the date of signing the attached Directors' Declaration.

**Note 2. Significant accounting policies**

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

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

The Group 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.

**Basis of preparation**

The financial statements are general purpose financial statements that have been prepared in accordance with Australian Accounting Standards, including Australian Accounting Interpretations, other authoritative announcements of the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001* as appropriate for-profit oriented entities.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in financial statements containing relevant and reliable information about transactions, events and conditions. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards. Material accounting policies adopted in the preparation of these financial statements are presented below. They have been consistently applied unless otherwise stated.

The financial statements have been prepared on an accruals basis and are based on historical costs unless otherwise stated.

Unless otherwise stated, amounts in this report have been rounded to the nearest thousand dollars.

*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 Group'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 Group only. Supplementary information about the parent entity is disclosed in note 29.

**Principles of consolidation**

The consolidated financial statements incorporate the assets and liabilities of all the subsidiaries of the Group as at 30 June 2021 and the results of all its subsidiaries for the reporting period.

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

Subsidiaries refer to entities over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of the potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The financial statements of the subsidiaries used in the preparation of the consolidated financial statements are prepared for the same reporting date as the Group. Consistent accounting policies are applied to like transactions and events in similar circumstances.

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 Group.

Subsidiary Name	Date Acquired	Percentage Shareholding 2021	Percentage Shareholding 2020
Cannproducts Pty Ltd (ACN 600 887 189)	27 February 2015	100.00%	100.00%
Cannoperations Pty Ltd (ACN 603 323 226)	27 February 2015	100.00%	100.00%
Cann IP Pty Ltd (ACN 169 764 407)	27 February 2015	100.00%	100.00%
Botanitech Pty Ltd (ACN 604 834 488)	18 March 2015	100.00%	100.00%
Satipharm Europe Ltd	10 March 2021	100.00%	-
Satipharm Limited	10 March 2021	100.00%	-
Satipharm AG	10 March 2021	100.00%	-
Satipharm Australia Pty Ltd	10 March 2021	100.00%	-
Satipharm Canada Limited	10 March 2021	100.00%	-
Phytotech Therapeutics Ltd	10 March 2021	100.00%	-

**Foreign currency translation**

The financial statements are presented in Australian dollars, which is Cann Group Limited's functional and presentation currency.

*Foreign currency transactions*

Foreign currency transactions are translated into Australian dollars using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at financial year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

*Foreign operations*

The assets and liabilities of foreign operations are translated into Australian dollars using the exchange rates at the reporting date. The revenues and expenses of foreign operations are translated into Australian dollars using the average exchange rates, which approximate the rates at the dates of the transactions, for the period. All resulting foreign exchange differences are recognised in other comprehensive income through the foreign currency reserve in equity.

The foreign currency reserve is recognised in profit or loss when the foreign operation or net investment is disposed of.

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

### **Revenue recognition**

The Group recognises revenue as follows:

#### *Revenue from contracts with customers*

The Group generates revenue primarily from the sale of medicinal cannabis products as well as from the provision of services. The Group uses the following five-step contract-based analysis of transactions to determine whether, how much and when revenue is recognised:

1. Identify the contract with a customer;
2. Identify the performance obligation(s) in the contract;
3. Determine the transaction price;
4. Allocate the transaction price to the performance obligation(s) in the contract; and
5. Recognise revenue when or as the Company satisfies the performance obligation(s).

Revenue from the sale of cannabis is generally recognised when control over the goods has been transferred to the customer. Payment for medicinal cannabis products is due within a specified time period as permitted by the underlying agreement and the Group's credit policy upon the transfer of goods to the customer. The Group satisfies its performance obligation and transfers control to the customer upon delivery and acceptance by the customer. Revenue is recorded at the estimated amount of consideration to which the Company expects to be entitled.

#### *Interest income*

Interest income 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.

#### *Government grants*

Government grants are recognised when they are received or when the right to receive payment is established.

### **Inventory**

Inventory is valued depending upon the specific purpose of that inventory class. Costs incurred for inventory held as research and development expenses are expensed as incurred.

Biomass plant inventory is valued at fair value less costs to sell, and where fair value is not readily available, at cost or net realisable value, whichever is less.

Resin inventory is valued at cost or net realisable value, whichever is less.

Oil inventory is valued at cost or net realisable value whichever is less.

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.

### **Fair value of financial instruments**

A financial asset is classified and measured at amortised cost or at fair value. The classification and measurement of financial assets is based on the Group's business models for managing its financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). Financial assets are initially measured at fair value and are subsequently measured at either (i) amortised cost; (ii) fair value through other comprehensive income (FVTOCI), or (iii) at fair value through profit or loss (FVTPL).

## Note 2. Significant accounting policies (continued)

Financial assets that are held for the purpose of collecting contractual cash flows that are SPPI are classified as amortised cost. Amortised cost financial assets are initially recognised at their fair value and are subsequently measured at amortised cost using the effective interest rate method. Transaction costs of financial instruments classified as amortised cost are capitalised and amortised in profit or loss on the same basis as the financial instrument. Cash and cash equivalents comprises cash at bank and on hand. Term deposits with maturity of less than three months are also classified as cash and cash equivalents.

Equity instruments are measured at fair value with changes in fair value recognised through profit and loss (FVTPL). Dividends received on these investments are recognised in profit or loss unless the distribution clearly represents a recovery of part of the cost of the investment (e.g., a return of capital).

Financial liabilities include – a contractual obligation to deliver cash or another financial asset to another entity, or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity; or a contract that will or may be settled in the entity's own equity instruments and is:

- a non-derivative for which the entity is or might be obliged to deliver a variable number of the entity's own equity instruments; or
- a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments.

The following table summarizes the classification of the Company's financial instruments under AASB 9:

<b>Financial assets</b>	<b>Classification as per AASB 9</b>
Cash and Cash Equivalents	Amortised cost
Trade and other receivables excluding GST	Amortised cost
Marketable securities	FVTPL
Equity interest in other entities	FVTPL
<b>Financial Liabilities</b>	<b>Classification as per AASB 9</b>
Accounts Payable and accrued liabilities	Amortised cost
Loans and Borrowings	Amortised cost
Convertible Note/Debentures	FVTPL
Lease liabilities	Amortised cost

### Impairment of financial assets

The Group 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.

## Note 2. Significant accounting policies (continued)

### Property, plant and equipment

Each class of property, plant and equipment is carried at cost less any accumulated depreciation and impairment losses.

The carrying amount of property, plant and equipment is reviewed annually by Directors 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. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

The cost of property, plant and equipment constructed within the Group includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads.

The depreciable amount of all property, plant and equipment is depreciated on a straight-line basis over the asset's useful life to the Group commencing from the time the asset is held ready for use.

As at 30 June 2021, the Group's asset classes had effective useful lives as follows:

Cultivation plant and equipment	1-7 years
Manufacturing plant and equipment	2-7 years
Computer and network equipment	1-3 years
Other plant and equipment	1-3 years
Buildings	20 years
Land	N/A

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

Leasehold improvements are depreciated over the unexpired period of the lease or the estimated useful life of the assets, whichever is shorter.

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the Group. Gains and losses between the carrying amount and the disposal proceeds are included in the statement of profit or loss and other comprehensive income.

### Lease liabilities

Lease liabilities are initially measured at the present value of the lease payments discounted using the interest rate implicit in the lease. If that rate cannot be determined, the Consolidated Group's incremental borrowing rate is used.

Lease liabilities are subsequently measured by:

- increase the carrying amount to reflect interest on the lease liabilities;
- reduce the carrying amount to reflect lease payments made; and
- remeasuring the carrying amount to reflect any reassessment or lease modifications

Interest on the lease liabilities and any variable lease payments not included in the measurement of the lease liabilities are recognised in the Consolidated Statement of Comprehensive Income in the period in which they relate.

### Right-of-use assets

Right-of-use assets are measured at cost less depreciation and impairment and adjusted for any remeasurement of the lease liability.

The cost of the asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before lease commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.



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

Right-of-use assets are depreciated on a straight-line basis from the commencement date of the lease to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

The Group tests right-of-use assets for impairment where there is an indicator that the asset may be impaired. 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.

The Group determines the lease term as the non-cancellable period of a lease together with both:

- the periods covered by an option to extend the lease if it is reasonably certain to exercise that option; and
- periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.

Management considers all the facts and circumstances that create an economic incentive to exercise an extension option or not exercise a termination option. This assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

Payments associated with short term leases and leases of low value assets are recognised on a straight-line basis as an expense in the Consolidated Statement of Comprehensive Income. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT equipment and small items of office furniture.

### **Biological assets**

The Group defines the biological assets as cannabis plants up to the point of harvest. Biological assets are measured at the lower of their cost and net realisable value at the end of each reporting period.

### **Impairment of non-financial assets**

At each reporting date, the Group's Directors review the carrying values of the Group's tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less cost to sell and value in use, is compared to the assets carrying value. Any excess of the assets carrying value over its recoverable amount is expensed to the statement of profit or loss and other comprehensive income.

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.

### **Trade and other payables**

These amounts represent liabilities for goods and services provided to the Group 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 days of recognition.

### **Contract liabilities**

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

### **Borrowings**

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

The component of the convertible notes that exhibits characteristics of a liability is recognised as a liability in the statement of financial position, net of transaction costs.

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

On the issue of the convertible notes the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond and this amount is carried as a non-current liability on the amortised cost basis until extinguished on conversion or redemption. The increase in the liability due to the passage of time is recognised as a finance cost. The remainder of the proceeds are allocated to the conversion option that is recognised and included in shareholders equity as a convertible note reserve, net of transaction costs. The carrying amount of the conversion option is not remeasured in the subsequent years. The corresponding interest on convertible notes is expensed to profit or loss.

### **Finance costs**

Finance costs attributable to qualifying assets are capitalised as part of the asset. All other finance costs are expensed in the period in which they are incurred.

### **Employee benefits**

#### *Short-term employee benefits*

Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled wholly within 12 months of the reporting date are measured at the amounts expected to be paid when the liabilities are settled.

#### *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 high quality corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

### **Share-based payments**

Equity-settled and cash-settled share-based compensation benefits are provided to employees.

The Group reflects in its comprehensive income (or loss) and its financial position the effects of share-based payment transactions, including expenses associated with transactions in which shares are granted to related parties, Key Management Personnel and employees.

For share-based payments received by employees and Key Management Personnel of the Group, fair value is measured by reference to the fair value of the equity instruments granted at their grant date, being the date that both the recipient and the Group have a shared understanding of the terms and conditions connected to the share-based payment. Any market-based vesting conditions are incorporated into the valuation of the share-based payment arrangement as at the grant date of the share-based payment. Share-based payments with non-market-based performance conditions vest according to the pro-rata achievement of those conditions. Share-based payments with non-performance-based conditions are valued using the Black-Scholes model and payments with market-based performance conditions are valued using a binomial model which incorporates from both the performance rights arrangement and market data that existed at grant date.

### **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.

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

### **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.

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

Where the business combination is achieved in stages, the Group 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.

### **Loss per share**

#### *Basic loss per share*

Basic loss per share is calculated by dividing the loss attributable to the owners of Cann Group 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 loss per share*

Diluted loss per share adjusts the figures used in the determination of basic loss 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.

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

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO).

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 ATO is included with other receivables or 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 ATO are presented as operating cash flows included in receipts from customers or payments to suppliers.

## Note 2. Significant accounting policies (continued)

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

### Commitments

The Group recognises contractual obligations as and when the performance obligations inherent in the execution of an agreement are achieved. Binding contractual arrangements where the Group is a party to a contractual obligation to exchange economic resources in the future upon the fulfilment of certain contract terms, are disclosed as contractual commitments to the extent to which they are not recognised in the financial statements.

### Rounding of amounts

The Company is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

## 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.

### Key judgments – non-recognition of carry-forward tax losses

The balance of future income tax benefit estimated as \$4.88 million (2020: \$4.80 million) arising from current year tax losses of \$25.10 million (2020: \$16.94 million) and timing differences has not been recognised as an asset because it is not clear when the losses will be recovered. The cumulative future income tax benefit estimated to be \$14.38 million, which has not been recognised as an asset, will only be obtained if:

- i. the Group derives future assessable income of a nature and an amount sufficient to enable the benefit to be realised;
- ii. the Group continues to comply with the conditions for deductibility imposed by law; and
- iii. no changes in tax legislation adversely affecting the Company realising the benefit.

### Key judgments – valuation of performance rights (refer note 22 for details)

Performance rights issued during the year are measured at the fair value on grant date. These were independently valued using Black-Scholes option pricing model. The data input into this model included the dividend yield of 0% and risk-free rate of 0.95%.

### Key judgments – non-recognition of research and development tax incentive benefits

The balance of research and development tax incentive arising from operations of the Group has not been recognised as an asset because receipt at this stage cannot be reliably calculated. The research and development tax incentive, which has not been recognised as an asset, will only be obtained if:

- i. the Group's activities fulfil the eligibility criteria of the research and development tax initiative and it is successful in registering for the research and development tax initiative;
- ii. the Group continues to comply with the conditions for registration of the research and development tax initiative imposed by law; and
- iii. no changes in tax legislation adversely affecting the Group realising the tax incentive from research and development.

### Key judgments – impact of COVID-19

As with many other businesses, the Group implemented changes in order to comply with Government-imposed COVID-19 restrictions and guidelines in FY21, safeguarding the Group's commitment to the health and welfare of its employees and business partners. The Group implemented a business continuity plan which included moving to a shift-based operation for its cultivation facilities and all other staff working from home. As a supplier of medical products to Australian patients, the Group's operations are an essential service and the Group expects to continue operating throughout the COVID-19 pandemic.

**Note 3. Critical accounting judgements, estimates and assumptions (continued)**

**Key judgments – impairment of inventories (refer note 12 for details)**

The provision for impairment of inventories assessment requires a degree of estimation and judgement. The level of the provision is assessed by taking into account the recent sales experience, the ageing of inventories and other factors that affect inventory obsolescence.

**Key judgments – Fair value measurement hierarchy (refer to notes 15 and 27 for details)**

The fair value of assets and liabilities classified as level 3 is determined by the use of valuation models. These include discounted cash flow analysis or the use of observable inputs that require significant adjustments based on unobservable inputs.

**Key judgments – Goodwill and other indefinite life intangible assets (refer note 14 for details)**

The Group tests annually, or more frequently if events or changes in circumstances indicate impairment, whether goodwill and other indefinite life intangible assets have suffered any impairment, in accordance with the accounting policy stated in note 2. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions, including estimated discount rates based on the current cost of capital and growth rates of the estimated future cash flows.

**Key judgments – Capitalisation of the cost of software hosted on infrastructure (refer note 14 for details)**

The Group capitalises the cost of software hosted on infrastructure in accordance with the Group accounting policy for software stated in note 2. In determining the nature and extent of software related costs to be capitalised, the Group is required to consider whether it can control the resources received. When the Group concludes it can control the resources and future economic benefits which accrue, it capitalises the associated costs and amortises the cost over the expected period during which the benefits can be controlled and obtained.

**Key judgments – Business combinations (refer note 30 for details)**

As discussed in note 2, 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 Group 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.

**Note 4. Operating segments**

*Determination and presentation of operating segments*

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. An operating segment's results are regularly reviewed by the CEO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete information is available.

Segment results that are reported to the CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets, head office expenses, and income tax assets and liabilities.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets other than goodwill.

The Group operates in one operational sector and has identified only one reportable segment being cultivation of medicinal cannabis and further processing into manufactured medicinal cannabis products, as well as the corporate office.

Geographical information of total sales and total non-current assets is disclosed as below.

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

*Geographical information*

	Revenues from external customer contracts		Geographical non-current assets	
	30 June 2021	30 June 2020	30 June 2021	30 June 2020
	\$'000	\$'000	\$'000	\$'000
Australia	2,256	647	79,690	63,872
Europe	2,037	-	10	-
	<u>4,293</u>	<u>647</u>	<u>79,700</u>	<u>63,872</u>

**Note 5. Revenue and other income**

	30 June 2021	30 June 2020
	\$'000	\$'000
Revenue from customer contracts	4,293	647
Research and development tax incentives and other government grants	4,234	938
Interest	41	263
Other income	-	14
	<u>8,568</u>	<u>1,862</u>

**Note 6. Administration and corporate costs**

	30 June 2021	30 June 2020
	\$'000	\$'000
Employee salaries and wages	7,806	6,961
Cultivation and manufacturing expenses	7,045	2,353
Legal and consultancy expenses	1,680	1,714
Insurance expenses	1,042	723
Employee superannuation	547	662
Share registry and listing expenses	457	316
Share based employee remuneration	307	168
Other corporate and administration expenses*	4,244	949
	<u>23,128</u>	<u>13,846</u>

\*Other corporate and administration expenses include the \$ 2.4 million cyber security incident value, net of \$1.2 million recovery receivable at reporting date.

**Note 7. Trade and other receivables**

	30 June 2021 \$'000	30 June 2020 \$'000
Overseas customer receivables	1,594	67
Local customer receivables	1,398	25
Other receivables*	1,204	-
	<u>4,196</u>	<u>92</u>

\*Other receivables in FY21 include a \$1.2million cyber security incident receivable, which was subsequently received in July 2021.

	30 June 2021 \$'000	30 June 2020 \$'000
Not overdue	4,004	25
0 to 3 months overdue	134	67
3 to 6 months overdue	-	-
Over 6 months overdue	58	-
	<u>4,196</u>	<u>92</u>

Management assess the ability to recover trade and other receivables on a regular basis. Where it is deemed that it is probable the counterparty will not be able to settle their obligations, management commensurately recognise a provision for expected credit losses.

**Note 8. Prepayments**

	30 June 2021 \$'000	30 June 2020 \$'000
Advances for Gelpell machinery	1,142	-
Prepaid insurance	412	828
Other prepayments	342	14
	<u>1,896</u>	<u>842</u>

**Note 9. Loss per share**

	30 June 2021 \$'000	30 June 2020 \$'000
Loss after income tax	<u>(25,103)</u>	<u>(16,937)</u>
	<b>Number</b>	<b>Number</b>
Weighted average number of ordinary shares used in calculating basic loss per share	<u>257,388,229</u>	<u>142,187,418</u>
Weighted average number of ordinary shares used in calculating diluted loss per share	<u>257,388,229</u>	<u>142,187,418</u>



**Note 9. Loss per share (continued)**

	Cents	Cents
Basic loss per share	(9.75)	(11.91)
Diluted loss per share	(9.75)	(11.91)

Performance rights have not been included in the weighted average number of ordinary shares as the Group presently has accumulated losses and no certainty of future profits to offset those losses.

The potentially dilutive effects of any contingently issuable ordinary shares have not been considered in the diluted loss per share calculation because the Group is in a loss-making position and such an effect would be anti-dilutive.

**Note 10. Key management personnel disclosures**

*Directors*

The following persons were Directors of Cann Group Limited during the financial year:

Mr Allan McCallum AO	Chairman
Mr Philip Jacobsen	Deputy Chairman
Mr Douglas Rathbone AM	Non-executive Director
Mr Geoff Pearce	Non-executive Director
Ms Jenni Pilcher (from 8 September 2020)	Non-executive Director
Mr John Sharman (from 27 April 2021)	Non-executive Director

*Other Key Management Personnel*

The following persons also had the authority and responsibility for planning, directing and controlling the major activities of the Group, directly or indirectly, during the financial year:

Mr Peter Crock	Chief Executive Officer
Mr Shane Duncan	Chief Operating Officer
Mr Greg Bullock	Chief Financial Officer
Ms Geraldine Farrell	Chief Compliance Officer & Company Secretary
Mr Geoff Aldred	Chief Projects & Information Officer

*Compensation*

The aggregate compensation paid to Directors and other members of Key Management Personnel of the Group is set out below:

	30 June 2021 \$	30 June 2020 \$
Short-term employee benefits	1,512,192	2,032,753
Post-employment benefits	134,437	159,709
Share-based payments	156,500	167,710
	<u>1,803,129</u>	<u>2,360,172</u>

**Note 11. Remuneration of auditors**

	30 June 2021 \$	30 June 2020 \$
<i>(i) Audit and other assurance services – William Buck</i>		
Audit and review of financial statements	80,000	73,500
Other audit and assurance related services	3,016	5,011
Total remuneration for audit and other assurance services	<u>83,016</u>	<u>78,511</u>
<i>(ii) Non-assurance services – William Buck</i>		
Tax compliance services	<u>91,573</u>	<u>39,520</u>
Total remuneration of William Buck	<u>174,589</u>	<u>118,031</u>
<i>(iii) Remuneration of other auditors:</i>		
Audit and review of financial statements	<u>20,202</u>	<u>-</u>
	<u>194,791</u>	<u>118,031</u>

**Note 12. Inventories**

	30 June 2021 \$'000	30 June 2020 \$'000
Finished goods - biomass	4,834	1,836
Finished goods - crude extract resin	4,131	6,915
Finished goods Gelpell	1,282	-
Finished goods - oil	1,391	451
Cultivation materials & work in progress	739	231
Less: Provision for impairment of finished goods - oil	(61)	-
Less: Provision for impairment of finished goods Gelpell	<u>(250)</u>	<u>-</u>
	<u>12,066</u>	<u>9,433</u>

**Note 13. Property, plant and equipment**

	30 June 2021 \$'000	30 June 2020 \$'000
Land and buildings - at cost	13,852	13,852
Less: Accumulated depreciation	(200)	(99)
	<u>13,652</u>	<u>13,753</u>
Capital work in progress	58,867	43,158
Cultivation plant & equipment	7,104	6,838
Less: Accumulated depreciation	(4,912)	(3,483)
	<u>2,192</u>	<u>3,355</u>
Manufacturing plant & equipment	1,142	531
Less: Accumulated depreciation	(136)	-
	<u>1,006</u>	<u>531</u>
Other plant & equipment	373	345
Less: Accumulated depreciation	(301)	(251)
	<u>72</u>	<u>94</u>
	<u><u>75,789</u></u>	<u><u>60,891</u></u>

*Reconciliations*

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

	Land and buildings \$'000	Cultivation plant and equipment \$'000	Manufacturing plant and equipment \$'000	Other plant and equipment \$'000	Capital work in progress \$'000	Total \$'000
Balance at 1 July 2020	13,753	3,355	531	94	43,158	60,891
Additions	-	65	605	4	15,915	16,589
Transfers in/(out)	-	200	5	-	(205)	-
Depreciation expense	(101)	(1,428)	(136)	(26)	-	(1,691)
Balance at 30 June 2021	<u>13,652</u>	<u>2,192</u>	<u>1,005</u>	<u>72</u>	<u>58,868</u>	<u>75,789</u>
	Land and buildings \$'000	Cultivation plant and equipment \$'000	Manufacturing plant and equipment \$'000	Other plant and equipment \$'000	Capital work in progress \$'000	Total \$'000
Balance at 1 July 2019	11,404	4,569	448	147	12,442	29,010
Additions	2,448	220	83	48	30,716	33,515
Depreciation	(99)	(1,434)	-	(101)	-	(1,634)
Balance at 30 June 2020	<u>13,753</u>	<u>3,355</u>	<u>531</u>	<u>94</u>	<u>43,158</u>	<u>60,891</u>

During the year ended 30 June 2021, the Group spent \$15.5 million (2020: \$30.7 million) in Mildura for construction of a greenhouse facility and support building. Materials to construct the greenhouse and to modify the existing building plus preliminary design and other services are classified as capital-work-in-progress until such time as the facility is completed and commissioned for use.

**Note 13. Property, plant and equipment (continued)**

As at 30 June 2021 the Directors conducted an impairment test of the cultivation plant and equipment which was applied as at 30 June 2021 whereby the Directors compared the carrying values of all of the cultivation plant and equipment to the selling values of comparable assets and concluded that no impairment existed relating to these assets.

**Note 14. Intangible assets**

During the year ended 30 June 2020, the Group entered into manufacturing agreement with a third-party contract manufacturer for production of GMP extracted locally manufactured resin and GMP-formulated locally manufactured oil. The initial cost of development of the production lines were one-off set-up costs at the third-party contract manufacturer's facilities, and have been recognised as intangible assets. In the opinion of management these costs will be recovered over a period of five years.

Software costs have been recognised during the year ended 30 June 2021 and in the opinion of management these costs are recovered over a period of three years.

	30 June 2021 \$'000	30 June 2020 \$'000
Intangible assets - at cost	2,612	919
Less: Accumulated amortisation	(566)	(91)
	<u>2,046</u>	<u>828</u>

	Goodwill \$'000	Other intangible assets \$'000	Software \$'000	Total \$'000
Balance at 1 July 2019	-	113	-	113
Additions	-	765	-	765
Amortisation expense	-	(50)	-	(50)
Balance at 1 July 2020	-	<u>828</u>	-	<u>828</u>
Additions	-	-	1,013	1,013
Additions through business combinations (note 30)	661	-	9	670
Amortisation expense	-	(285)	(180)	(465)
	<u>661</u>	<u>(285)</u>	<u>842</u>	<u>1,218</u>
Balance at 30 June 2021	<u>661</u>	<u>543</u>	<u>842</u>	<u>2,046</u>

**Note 15. Financial assets at fair value through profit or loss**

	30 June 2021 \$'000	30 June 2020 \$'000
Shares in Zalm Therapeutics Ltd	111	935
Shares in Iuvo Therapeutics Ltd	1,025	-
Shares in Emyria Limited (formerly Emerald Clinics Limited)	-	75
	<u>1,136</u>	<u>1,010</u>

**Note 15. Financial assets at fair value through profit or loss (continued)**

	30 June 2021 \$'000	30 June 2020 \$'000
Movement in financial assets at fair value through profit or loss:		
Subscription shares Zalm Therapeutics Ltd (formerly Pure Cann NZ Limited)		
Opening balance	935	951
Additional subscription shares	924	-
Fair value movement during the period	(1,748)	(16)
Closing balance	111	935
Shares in Iuvo Therapeutics Ltd		
Acquisition of shares	1,025	-
Shares in Emyria Limited (formerly Emerald Clinics Limited)		
Opening balance	75	250
Fair value movement during the period	66	(175)
Disposal of shares	(141)	-
Closing balance	-	75
	<u>1,136</u>	<u>1,010</u>

The Groups financial assets are measured and disclosed at fair value, using a three-level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3: Unobservable inputs for the asset or liability.

The financial assets listed above are valued at the fair value at the end of the reporting period. The gains/(losses) on the financial assets have been recognised in the statement of profit or loss and other comprehensive income

Details of the Groups investments are as follows;

**Zalm Therapeutics Ltd ("Zalm") – Level 3 investment**

The Group, through its wholly owned subsidiary Botanitech, holds 8.4% of the Zalm business and has increased its holding from 3.9% during the financial year. The Group has no further obligation to invest further funds into the Zalm business.

**Iuvo Therapeutics Ltd ("Iuvo") – Level 3 investment**

The Group has made a strategic CAD 1 million investment in Iuvo Therapeutics Ltd ("Iuvo"), resulting in the Group holding approximately 2% of Iuvo's issued ordinary shares. Following the investment, the Group has exclusive external rights to supply Iuvo Therapeutics GmbH, Iuvo's wholly owned subsidiary, with medicinal cannabis extracts until 31 December 2021, with those rights then converting to preferred non-exclusive status.

**Emyria Limited ("Emvria") Level 1 investment**

The investment in Emyria was disposed of during the year.

**Note 15. Financial assets at fair value through profit or loss (continued)**

**Consideration of fair value at 30 June 2021**

The investments in the Zalm and Iuvo are considered by the Directors of the Group as level 3 investments in accordance with the AASB 13 *Fair Value Measurement*, as investments in shares of unlisted specialist proprietary limited companies, for which there is no active market nor readily observable valuation inputs.

Accordingly, the Directors have determined at the reporting date that it is reasonable to assess the Iuvo assets at fair value based on the most recent, or expected future, arm's length transactions in these shares. Based on these criteria, the Directors have determined that the Iuvo assets carrying value is not materially different to the fair value at the reporting date.

With regards to Zalm the Directors have assessed the carrying value of the investment at reporting date and determined that based on a number of factors the most appropriate valuation methodology for this investment is to value the investment based on the Groups share of Zalm's net assets as at the reporting date. Consequently, a fair value loss of \$1,748 thousand has been recorded in the statement of profit or loss and other comprehensive income as at 30 June 2021.

At each reporting date the Directors will reassess the carrying value of its investments and if new information becomes available the investments will be revalued in accordance with AASB 13 – Fair value measurement.

**Note 16. Right-of-use assets**

	30 June 2021 \$'000	30 June 2020 \$'000
Land and buildings - right-of-use	1,533	1,533
Less: Accumulated depreciation	(889)	(475)
	<u>644</u>	<u>1,058</u>

The Group leases land and building for its offices and greenhouse under agreements of between three to five years with, in some cases, options to extend. The leases have various escalation clauses. On renewal, the terms of the leases are renegotiated.

**Note 17. Trade and other payables**

	30 June 2021 \$'000	30 June 2020 \$'000
Mildura construction	4,660	1,463
Accrued expenses	1,087	747
Contract manufacturing	1,050	2,137
Cultivation vendors	438	335
Research and development	114	50
Other vendors	984	973
Total trade and other payables	<u>8,333</u>	<u>5,705</u>

**Note 18. Provisions**

	30 June 2021 \$'000	30 June 2020 \$'000
Annual leave	520	478
Long service leave	246	-
	<u>766</u>	<u>478</u>

**Note 19. Lease liability**

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

The Group has two existing leases for premises as follows:

**Northern Facility**

The term of the lease is three years finishing on 31 March 2023. The lease started in April 2017 for three years and an option was exercised in March 2020 to extend the lease for a further three years. It is reasonably certain that the Group will renew the lease again.

**Corporate Office**

The term of the lease is one year commencing 1 July 2020. The lease started in July 2018 for two years and an option was exercised to extend the lease for one year in June 2020. As of 1 July 2021, the lease has reverted to a monthly tenancy, on the same monthly financial terms as were in place prior to 1 July 2021.

All the leased premises are located in Melbourne, Victoria. Lease commitments for the Company are:

	30 June 2021 \$'000	30 June 2020 \$'000
Lease liability – current (within 12 months)	409	485
Lease liability – non-current	271	642
	<u>680</u>	<u>1,127</u>

**Note 20. Convertible notes**

The Group issued 8,000,000 convertible notes to six investors (Noteholders) at a face value of \$1.00 per convertible note on 10 February 2020, in respect of which the Group received net funds of \$7,560,000 (after costs) in aggregate at the time of issue.

100,000 convertible notes were converted in April 2020, which along with applicable interest, resulted in the allotment of 145,007 ordinary equity shares to the relevant Noteholders. As per the agreement between the Group and Noteholders, along with the conversion of convertible notes into equity, Noteholders were also issued one option for each equity share issued. Accordingly, 145,007 options were granted at the time of the conversion of 100,000 notes and had not yet been exercised as at 30 June 2021.

5,600,000 convertible notes were converted in July 2020, which along with applicable interest, resulted in the allotment of 17,185,723 ordinary equity shares to the relevant Noteholders. As per the agreement between the Group and Noteholders, along with the conversion of convertible notes into equity, Noteholders were also issued one option for each equity share issued. Accordingly, 17,185,723 options were granted at the time of the conversion of 5,600,000 notes. Of those options, 3,377,637 have been exercised (306,846 options were exercised on 22 January 2021 and a further 3,070,791 options were exercised on 16 February 2021). A further 13,808,086 options have not yet been exercised as at 30 June 2021.



**Note 20. Convertible notes (continued)**

2,300,000 convertible notes were converted in September 2020, which along with applicable interest, resulted in the allotment of 7,175,285 ordinary equity shares to the relevant Noteholders. As per the agreement between the Group and Noteholders, along with the conversion of convertible notes into equity, Noteholders were also issued one option for each equity share issued. Accordingly, 7,175,285 options were granted at the time of the conversion of 2,300,000 notes and had not yet been exercised as at 30 June 2021.

	30 June 2021 \$'000	30 June 2020 \$'000
Convertible notes	-	8,195

**Note 21. Issued capital**

	30 June 2021 Shares	30 June 2020 Shares	30 June 2021 \$'000	30 June 2020 \$'000
Ordinary shares - fully paid	277,911,998	142,892,342	149,673	97,137

*Movements in ordinary share capital*

Details	Date	Shares	Issue price	\$'000
<b>Balance</b>	<b>1 July 2019</b>	<b>141,804,247</b>		<b>96,502</b>
Settlement of invoice for services	4 October 2019	67,538	\$2.08	140
Settlement of invoice for services	24 December 2019	550,278	\$0.46	254
Conversion of 100,000 convertible notes	8 April 2020	145,007	\$0.70	101
Settlement of invoice for services	15 June 2020	325,272	\$0.43	140
<b>Balance</b>	<b>30 June 2020</b>	<b>142,892,342</b>		<b>97,137</b>
SPP Offer	23 July 2020	32,953,920	\$0.40	13,182
Conversion of 5,600,000 convertible notes	29 July 2020	17,185,723	\$0.34	5,843
Settlement of invoice for services	11 August 2020	74,840	\$0.94	70
Settlement of invoice for services	11 August 2020	103,846	\$0.65	68
Issue of shares to Zalm Therapeutics	11 August 2020	1,983,890	\$0.47	923
SPP Offer	20 August 2020	64,744,452	\$0.40	25,898
SPP Offer	15 September 2020	2,796,080	\$0.40	1,118
Conversion of 2,300,000 convertible notes	30 September 2020	7,175,285	\$0.34	2,440
Settlement of invoice for services	27 November 2020	75,000	\$0.42	32
Share gift plan	12 January 2021	89,668	\$0.65	57
Exercise of convertible note options	28 January 2021	306,846	\$0.46	141
Exercise of convertible note options - transfer from reserve	28 January 2021	-	\$0.15	47
Exercise of convertible note options	16 February 2021	3,070,791	\$0.46	1,412
Exercise of convertible note options - transfer from reserve	16 February 2021	-	\$0.15	467
Settlement of invoice for services	19 February 2021	113,157	\$0.57	64
Acquisition of Satipharm	10 March 2021	4,278,615	\$0.60	2,575
Settlement of invoice for services	14 May 2021	67,543	\$0.57	38
Transaction costs associated with capital raising				(1,839)
<b>Balance</b>	<b>30 June 2021</b>	<b>277,911,998</b>		<b>149,673</b>

*Ordinary shares*

Ordinary shares participate in dividends and the proceeds on winding up of the Group in proportion to the number of shares held. At shareholders' meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

**Note 21. Issued capital (continued)**

*CSIRO share based payments*

During the year ended 30 June 2021, the Company issued fully paid ordinary shares to the CSIRO for research and development services rendered. Research and development costs in the consolidated statement of profit or loss and other comprehensive income includes \$272 thousand of equity settled share-based payments made to the CSIRO during the year ended 30 June 2021 (2020: \$534 thousand).

**Note 22. Reserves**

	30 June 2021 \$'000	30 June 2020 \$'000
Foreign currency reserve	(42)	-
Share based payments reserve	3,405	2,143
	<u>3,363</u>	<u>2,143</u>

*Movements in reserves*

Movements in reserves during the current and previous financial year are set out below:

	Share based payments reserve \$'000	Foreign currency translation reserve \$'000	Total \$'000
Balance at 1 July 2019	1,975	-	1,975
Performance rights	168	-	168
Balance at 30 June 2020	2,143	-	2,143
Foreign currency translation	-	(42)	(42)
Options issued as settlement for convertible notes	3,669	-	3,669
Performance rights	250	-	250
Transfer of Performance rights Class C to accumulated losses	(2,143)	-	(2,143)
Transfer of options exercised to accumulated losses	(514)	-	(514)
Balance at 30 June 2021	<u>3,405</u>	<u>(42)</u>	<u>3,363</u>

For share-based payments received by employees and Key Management Personnel of the Group, fair value is measured by reference to the fair value of the equity instruments granted at their grant date, being the date that both the recipient and the Group have a shared understanding of the terms and conditions connected to the share-based payment. Any market-based vesting conditions are incorporated into the valuation of the share-based payment arrangement as at the grant date of the share-based payment. Share-based payments with non-market-based performance conditions vest according to the pro-rata achievement of those conditions. Share-based payments with non-performance-based conditions are valued using the Black-Scholes model and payments with market-based performance conditions are valued using a binomial model which incorporates from both the performance rights arrangement and market data that existed at grant date.

Employee remuneration costs incurred in respect of performance rights for the year ended 30 June 2021 is \$250 thousand (2020: \$167 thousand).

**Performance rights over ordinary shares**

On 21 November 2017 1,000,000 Performance Rights Class C were issued to the Chief Executive Officer with a total vesting value of \$2,465 thousand. These rights lapsed on 19 January 2021.

On 24 November 2020, 990,000 Performance Rights 2020 Series were issued to the Chief Executive Officer and other employees with a total vesting value of \$500 thousand.

## Note 22. Reserves (continued)

The Performance Rights 2020 Series vest upon final commissioning of the first stage of the Group's Mildura facility.

The fair value of the performance rights has been calculated on the basis of the Black-Scholes model using the following key assumptions:

Grant of performance rights	Number of performance rights	Spot price on issue date	Risk free rate %	Expiry date	Volatility rate	Fair value
Performance Rights 2020 Series	990,000	0.51	0.05%	11/01/2024	n/a*	500

The weighted average remaining contractual life of performance rights outstanding at 30 June 2021 was 2.53 years (2020: 0.56 years).

\* Given a nil exercise price of the Performance Rights, adopting different volatility assumptions does not have an impact on the Performance Rights' valuation.

### Options over ordinary shares

During the year ended 30 June 2021, 24,361,008 options over fully paid ordinary shares were issued with an exercise price of \$0.46 or 46 cents per share (2020: 145,007 with an exercise price of \$0.95 or 95 cents per share), in accordance with the terms of the convertible notes issued in the year ended 30 June 2020, further details of which are in note 20.

During the year ended 30 June 2021, 3,377,637 options over fully paid ordinary shares were exercised at a price of \$0.46 or 46 cents per share.

### 2021

Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
4 April 2020	31 March 2022	\$0.95	145,007	-	-	-	145,007
29 July 2020	31 March 2022	\$0.46	-	17,185,723	(3,377,637)	-	13,808,086
30 September 2020	31 March 2022	\$0.46	-	7,175,285	-	-	7,175,285
			145,007	24,361,008	(3,377,637)	-	21,128,378
Weighted average exercise price			\$0.95	\$0.46	\$0.46	\$0.00	\$0.46

The fair value of the options has been calculated on the basis of the Black Scholes model using the following key assumptions:

Grant of options	Number of options	Spot price at grant of option	Options exercise price	Risk free rate %	Options expiry date	Volatility %	Fair value
Tranche 1	145,007	0.70	0.95	0.26%	31/03/2022	85.00%	37
Tranche 2	17,185,723	0.40	0.46	0.26%	31/03/2022	85.00%	2,611
Tranche 3	7,175,285	0.42	0.46	0.26%	31/03/2022	85.00%	1,020
	24,506,015	1.52	1.87				3,668

**Note 22. Reserves (continued)**

2020

Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
4 April 2020	31 March 2022	\$0.95	-	145,007	-	-	145,007

The weighted average remaining contractual life of options outstanding at 30 June 2021 was 1.75 years (2020: 0.74 years).

**Note 23. Related party transactions**

*Parent entity*

Cann Group Limited is the parent entity.

*Key management personnel*

Disclosures relating to Key Management Personnel are set out in note 10 and the remuneration report included in the Directors' report.

*Transactions with related parties*

Transactions between the Group and related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated. There were no related party transactions not otherwise disclosed in these financial statements during the period ended 30 June 2021.

**Note 24. Contingent liabilities and commitments**

The Group has a bank guarantee of \$50 thousand for the operating premises lease of the Company's Northern Facility. Except for the bank guarantee, as at the end of the reporting period, the Group had no contingent liabilities.

At the reporting date, the Group had capital commitments of \$39.9 million, of which \$38.3 million is in respect of the Mildura glasshouse construction commitments and \$0.80 million deferred contingent consideration following delivery of the Gelpell Manufacturing Equipment to Cann's Mildura glasshouse facility in Australia.

**Note 25. Events after the reporting period**

The Group announced on 26 July an institutional placement (Placement) and a Share Purchase Plan (SPP) (which will be subject to shareholder approval) to raise a total of \$20 million (Capital Raising) at a price of \$0.275 per fully paid ordinary share. The proceeds from the Capital Raising will be used to invest in initiatives which are expected to deliver substantial cost savings as the Group moves to large scale production with the commissioning of its new manufacturing facility near Mildura. Funding will be used to expedite and strengthen its in-house extraction, laboratory and manufacturing capabilities, which are expected to de-risk the Group's supply chain and lower COGS by reducing the Group's reliance on third party manufacturers and service providers. \$8.9 million of the first tranche has been received by the Group on 2 of August 2021. Receipt of the remaining funds from the Placement relate to the proposed issue of shares under the Placement to Directors and related entities, which requires shareholder approval under ASX Listing Rule 10.11. A meeting of shareholders is scheduled to occur on 7 September 2021.

Proceeds of the Capital Raising will also be used to expand and grow the Satipharm business, including fast-tracking the preparation of applications to register Satipharm's low-dose CBD capsules on the Australian Register of Therapeutic Goods classed as Schedule 3 (Pharmacist Only Medicine). Satipharm's low-dose CBD capsules incorporate proprietary "Gelpell" technology and access a significant market opportunity.

On 9 July 2021, Cann announced that it had received \$1.2 million in connection with those court proceedings regarding the cybercrime court action announced to the market on 29 March 2021.

On 4 August 2021, Cann announced that 1,000,000 Performance Rights Class C issued to Cann's Chief Executive Officer (CEO) had expired, with effect on 19 January 2021.

No other matter or circumstance has arisen since 30 June 2021 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

**Note 26. Reconciliation of loss after income tax to net cash used in operating activities**

	30 June 2021 \$'000	30 June 2020 \$'000
Loss after income tax expense for the year	(25,103)	(16,937)
Adjustments for:		
Equity settled trade payables	272	534
Cost of issuing convertible notes (finance costs)	-	443
Vesting of performance rights	308	168
Interest on convertible notes	-	295
Decrease in the value of financial assets	1,683	191
Depreciation, Amortisation and loss on sale of assets	2,630	2,160
Short term incentive accrual	487	-
Finance cost of issuing convertible notes	3,665	-
Change in operating assets and liabilities:		
Decrease/(increase) in trade and other receivables	(4,104)	1,023
Increase in inventories	(2,852)	(6,564)
Increase in prepayments	(1,054)	(120)
Increase in trade and other payables	3,238	1,188
Net cash used in operating activities	<u>(20,830)</u>	<u>(17,619)</u>

**Note 27. Financial instruments**

**Financial risk management objectives**

The Group's material financial instruments consist of deposits with banks and its accounts payable and other liabilities. The Board is responsible for managing the Group's significant financial risks, which are its liquidity risk, which it does through regularly reviewing rolling cash flow forecasts and examining its levels of available working capital against such forecasts and its interest rate risk exposure.

**Market risk**

The Group does not believe it has any material market risk of loss arising from adverse movements of market instruments including foreign exchange and interest rates.

**Interest rate risk**

The Group has, as of the reporting date, a minimal direct exposure to interest rate risk, which is the risk that a financial instrument's market value will fluctuate as a result of changes in market interest rates. The effective weighted average interest rates on classes of financial assets and financial liabilities are as follows:

**Note 27. Financial instruments (continued)**

2021	Weighted average effective interest rate	Floating interest rate \$'000	1 year or less \$'000	1 to 5 years \$'000	over 5 years \$'000	Non-interest bearing \$'000	Total \$'000
<b>Assets:</b>							
Cash and bank balances	-	-	-	-	-	3,069	3,069
Deposits	-	-	-	-	-	36	36
Rental bonds	1.50	-	85	-	-	-	85
Financial assets at fair value	-	-	-	-	-	1,136	1,136
Trade and other receivables	-	-	-	-	-	4,196	4,196
Prepayments	-	-	-	-	-	1,896	1,896
<b>Total financial assets</b>		-	85	-	-	10,333	10,418
<b>Liabilities:</b>							
Trade and other creditors	-	-	-	-	-	(8,333)	(8,333)
Lease liability	-	-	-	-	-	(680)	(680)
Provisions	-	-	-	-	-	(907)	(907)
<b>Total financial liabilities</b>		-	-	-	-	(9,920)	(9,920)
<b>Net financial assets (liabilities)</b>		-	85	-	-	413	498
<b>2020</b>							
<b>Assets:</b>							
Cash and bank balances	-	-	-	-	-	1,554	1,554
Receivables	-	-	-	-	-	92	92
Rental bonds	1.50	-	85	-	-	-	85
Financial assets at fair value	-	-	-	-	-	1,010	1,010
		-	85	-	-	2,656	2,741
<b>Liabilities:</b>							
Trade and other creditors	-	-	-	-	-	(5,527)	(5,527)
Lease liability	-	-	-	-	-	(1,127)	(1,127)
Convertible Notes	9.50	-	-	(8,195)	-	-	(8,195)
Provisions	-	-	-	-	-	(478)	(478)
<b>Total financial liabilities</b>		-	-	(8,195)	-	(7,132)	(15,327)
<b>Net financial assets (liabilities)</b>		-	85	(8,195)	-	(4,476)	(12,586)

**Credit risk**

The Group does not believe it has any material risk from a counterparty defaulting on its contractual obligations or commitments resulting in financial loss as such risk is managed by implementing a policy of only dealing with creditworthy counterparties in accordance with established credit limits for all future transactions with customers. The Group also reviews the overall financial strength of its customers by monitoring publicly available credit information.

The Directors have assessed that the fair values of the Group's financial assets and liabilities reasonably approximate their carrying values, as represented in these financial statements.

**Liquidity risk**

Liquidity risk arises from the possibility that the Group may encounter difficulty in meeting its obligations for its financial liabilities, which at 30 June 2021 were primarily accounts payable with due terms of between 0-45 days. During the reporting period, the Company undertook a capital raising from the market to finance its working capital and near term growth requirements.

**Note 27. Financial instruments (continued)**

*Remaining contractual maturities*

The following tables detail the Group's remaining contractual maturity for its financial instrument liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the financial liabilities are required to be paid. The tables include both interest and principal cash flows disclosed as remaining contractual maturities and therefore these totals may differ from their carrying amount in the statement of financial position.

30 June 2021	Weighted average interest rate %	1 year or less \$'000	Between 1 and 2 years \$'000	Between 2 and 5 years \$'000	Over 5 years \$'000	Remaining contractual maturities \$'000
<b>Non-derivatives</b>						
<i>Non-interest bearing</i>						
Trade and other creditors	-	8,333	-	-	-	8,333
<i>Interest-bearing - fixed rate</i>						
Lease liability	-	409	271	-	-	680
Total non-derivatives		8,742	271	-	-	9,013
30 June 2020	Weighted average interest rate %	1 year or less \$'000	Between 1 and 2 years \$'000	Between 2 and 5 years \$'000	Over 5 years \$'000	Remaining contractual maturities \$'000
<b>Non-derivatives</b>						
<i>Non-interest bearing</i>						
Trade and other creditors	-	5,527	-	-	-	5,527
<i>Interest-bearing - fixed rate</i>						
Convertible notes payable	9.50%	-	8,195	-	-	8,195
Lease liability	-	485	642	-	-	1,127
Total non-derivatives		6,012	8,837	-	-	14,849

The cash flows in the maturity analysis above are not expected to occur significantly earlier than contractually disclosed above.

*Foreign currency risk*

Subsequent to the acquisition of Satipharma, the Group is exposed to fluctuations in foreign currencies arising from the sale and purchase of goods and services in currencies other than the Group's measurement currency. The management managed the foreign currency transactions on a monthly basis to avoid the fluctuation on the exchange rate, while the Group does not have any material foreign currency risk exposure. Where exposures do arise, forward foreign exchange contracts will be applied.

**Note 28. Capital management**

The Board of Directors are charged with determining the optimal mix of debt and equity which is suitable for the needs of the Group. For the year ended 30 June 2021 the Group held no material commercial borrowings drawn down and a \$50,000,000 loan facility available for the purpose of funding the construction of the Mildura Facility. The Board considers it appropriate that the construction of the Mildura Facility be sourced through a mix of equity and long-term debt financing. The Group's treasury function reports to the Board periodically with forecast cash flow information that enables the Company to conduct its capital raising activities in an orderly fashion at a dilutive cost to existing shareholders that is appropriate and reasonable.



**Note 29. Parent entity information**

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

*Statement of profit or loss and other comprehensive income*

	Parent	
	30 June 2021 \$'000	30 June 2020 \$'000
Loss after income tax	(11,028)	(9,005)
Total comprehensive loss	(11,028)	(9,005)

*Statement of financial position*

	Parent	
	30 June 2021 \$'000	30 June 2020 \$'000
Total current assets	4,464	85,331
Total assets	124,591	87,268
Total current liabilities	2,097	1,492
Total liabilities	2,097	9,687
Equity		
Issued capital	149,673	97,137
Share based payments reserve	3,405	2,143
Accumulated losses	(30,584)	(21,699)
Total equity	122,494	77,581

The subsidiary companies have expenditure commitments under the premises lease. The parent entity has committed to providing funds to ensure the subsidiary companies can fulfil these commitments as well as any other operating commitments.

*Capital commitments - Property, plant and equipment*

The parent entity had a contingent liability in respect of a \$50 thousand bank guarantee and no capital commitments for property, plant and equipment as at 30 June 2020 and 30 June 2021.

*Significant accounting policies*

The accounting policies of the parent entity are consistent with those of the Group, 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.

**Note 30. Business combinations**

**Satipharm Acquisition**

On 10 March 2021 Cann Group Limited acquired 100% of the ordinary shares of Satipharm.

In accordance with the share sale agreement executed by the parties on 15 February 2021 (and as announced by the Company on that date), the acquisition involves a total maximum consideration of CAD\$3.25 million (including contingent consideration of up to CAD\$0.75 million).

The initial payment of CAD\$2.5 million was completed on 10 March 2021 by the issue of 4,278,615 new Cann shares, based on the value of the AUD equivalent of CAD2.5 million at an issue price of \$0.602 per share, calculated as the VWAP of Cann's shares during the 5 full trading days on the ASX ending on 9 March 2021.

The balance of up to CAD\$0.75 million is payable on a deferred basis on achieving agreed operational and financial results. This contingent consideration is payable by the issuance of further new Cann shares or cash, at the option of Cann Group. A key summary of the arrangements relating to the contingent consideration was included as an annexure to the Company's announcement on 15 February 2021. The Group did not recognise a liability for the deferred contingent consideration on acquisition date and have disclosed in note 24 a capital commitment for the element of deferred consideration in respect of delivery of Gelpell machinery.

Details of the acquisition are as follows:

	<b>Fair value \$'000</b>
Trade receivables	78
Other receivables	12
Inventories	1,888
Prepayments	811
Office equipment	4
Intangible assets	9
Trade payables	(575)
Other payables	(312)
	<hr/>
Net assets acquired	1,915
Goodwill	661
	<hr/>
Acquisition-date fair value of the total consideration transferred	2,576
	<hr/> <hr/>
Representing:	
Cann Group Limited shares issued to vendor	2,576
	<hr/> <hr/>

**Note 30. Business combinations (continued)**

**i. Consideration transferred**

Acquisition-related costs amounting to \$691 thousand are not included as part of the consideration for the acquisition and have been recognised as transaction costs in the profit and loss statement.

**ii. Identifiable net assets**

The fair value of the trade and other receivables acquired as part of the business combination amounted to \$90 thousand. As of the acquisition date, the Company's best estimate is that all cash will be collected.

**iii. Goodwill**

Goodwill of \$661 thousand was primarily related to the Company's growth expectations through customer expansion.

The Group operates as one operating segment and goodwill was allocated to the cultivation of medicinal cannabis and further processing into manufactured medicinal cannabis products cash generating unit as at acquisition date. The goodwill that arose from this business combination is not deductible for tax purposes.

**iv. Contribution to the Group's results**

Satipharm generated \$625 thousand in revenues for the year ended 30 June 2021, of which it contributed revenues of \$226 thousand to the Group from the date of the acquisition to 30 June 2021.

Satipharm incurred a net loss of \$1,497 thousand for the year ended 30 June 2021, of which it contributed a net loss after tax of \$781 thousand to the Group from the date of the acquisition to 30 June 2021.

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 Group's financial position as at 30 June 2021 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 Directors have been given the declarations required by section 295A of the Corporations Act 2001.

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

On behalf of the Directors



Allan McCallum AO  
Chairman

23 August 2021



## Cann Group Limited

### Independent auditor's report to members

## Report on the Audit of the Financial Report

### Opinion

We have audited the financial report of Cann Group Limited (the Company) and its controlled entities (the Group), which comprises the consolidated statement of financial position as at 30 June 2021, 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 other explanatory information, 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 2021 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 (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, 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.

#### ACCOUNTANTS & ADVISORS

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ACQUISITION OF THE SATIPHARM GROUP OF COMPANIES	
Area of focus Refer also to notes 2, 3, and 30	How our audit addressed it
<p>The Group acquired the Satipharm group of companies ("Satipharm") on 10 March 2021 for a total consideration of CAD 3.25 million; inclusive of CAD 0.75 million of contingent consideration.</p> <p>Accounting for this transaction is complex and required significant judgements and estimation by management, specifically:</p> <ul style="list-style-type: none"> <li>to determine the fair value of assets and liabilities acquired in the context of Australian Accounting Standards; and</li> <li>to determine the fair value of the contingent consideration on acquisition date.</li> </ul> <p>As such this matter has been determined as a key area of focus for our audit.</p>	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> <li>Assessing that the acquired entity meets the definition of a business under AASB 3 – <i>Business Combinations</i>;</li> <li>Reviewing the sale and purchase agreement to understand the key terms and conditions of the acquisition, including the date that control passed to the Group;</li> <li>Assessing the Group's determination of fair values of assets acquired by performing specific audit procedures on opening balances at acquisition date; and</li> <li>We tested the appropriateness that a liability for the contingent consideration was not recorded on acquisition data and verified that no material payment was required at the end of the contingent consideration measurement period, on 30 June 2021.</li> </ul> <p>We assessed the adequacy of the Group's disclosures in respect of the acquisition in the financial report.</p>
PROPERTY, PLANT AND EQUIPMENT	
Area of focus Refer also to notes 2, 3, and 13	How our audit addressed it
<p>During the financial year the Group significantly invested in its cultivation capacity through the development of its Mildura Facility.</p> <p>The work at the Mildura site includes construction of an additional greenhouse and support buildings. The works have been classified as capital-work-in progress until such time as the facility is completed.</p> <p>The Group's accounting policy for depreciating such property, plant and equipment is over the term of the useful life of the asset, from when it is held ready for use.</p> <p>During the year management has not changes its estimation of useful life of its assets.</p> <p>Property, plant and equipment has been a key area of focus for our audit.</p>	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> <li>Vouching material purchases of property, plant and equipment to support documentation;</li> <li>Examining the underlying material plant and equipment costs which have been capitalised in the year to determine whether or not such plant and equipment is held and ready for use and therefore subject to depreciation;</li> <li>Assessing the classification of property, plant and equipment between categories, including capital-work-in progress;</li> <li>Recalculating the arithmetic accuracy of the depreciation charge expensed in the financial report; and</li> <li>Reviewing for impairment triggers in relation to the carrying value of property, plant and equipment.</li> </ul> <p>We have also assessed the adequacy of disclosures in relation to property, plant and equipment in the financial report.</p>





INVENTORY	
Area of focus Refer also to notes 2 and 12	How our audit addressed it
<p>The Group's inventory of \$12.1 million; is significant to the financial report and has increased by \$2.7 million from the prior year.</p> <p>The Groups inventory balance has also increased due to obtaining control over the Satipharm inventory as a result of the business combination completed during the year.</p> <p>The Groups inventory primary consists of biomass and resin. The biomass is valued at fair value less costs to sell as at the date of harvest and resin is valued at the lower of cost or net realisable value.</p> <p>The valuation of inventory involves judgement by management in particular when determining the value per gram of biomass. In addition, consideration is given to directly attributable costs which can be capitalised to the into cost of inventory.</p> <p>As such this matter has been determined as a key area of focus for our audit.</p>	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> <li>Performing inventory stock verification procedures in respect of inventory held at the Northern and Southern facilities;</li> <li>Reviewing inventory confirmations in relation to inventory held by third parties;</li> <li>Reviewing reporting for inventory procedures (including physical verification) completed by the component auditor with regards to inventory held outside of Australia;</li> <li>Evaluating management's judgments and assumptions used in calculation cost per gram of biomass;</li> <li>Verifying that the carrying value of resin and biomass inventory has been calculated appropriately including verification of third-party manufacturing costs to supporting documentation; and</li> <li>Evaluating management's judgements and assumptions used in determining the need for inventory provisions and inventory write downs.</li> </ul> <p>We have also assessed the adequacy of disclosures in relation to inventory in the financial report.</p>
SHARE BASED PAYMENTS	
Area of focus Refer also to notes 2, 3, 22 and the Remuneration Report	How our audit addressed it
<p>In the current year the Group has issued performance rights to the CEO and the Executive Management team. The performance rights included a non-market based vesting condition attached to the completion of the Mildura facility.</p> <p>The performance rights issued require significant judgements and estimations by management, including the following:</p> <ul style="list-style-type: none"> <li>Determination of the grant date, and the evaluation of the fair value of the performance rights at grant date;</li> <li>The evaluation of the vesting charge taken to the profit and loss in-respect of the vesting conditions attached to the performance rights; and</li> </ul>	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> <li>Evaluating the fair values of share-based payment arrangements by agreeing assumptions to third party evidence. In determining the grant dates, we evaluated what were the most appropriate dates based on the terms and conditions of the share-based payment arrangements;</li> <li>Evaluating the progress of the vesting of share-based payments within the service period; and</li> <li>For the specific application of the Black Scholes model, we assessed the experience of the expert used to advise the value of the arrangement. We retested some of the assumptions used in the model and recalculated those fair values.</li> </ul> <p>We also considered the adequacy of the Group's disclosures in the notes to the financial report.</p>





#### SHARE BASED PAYMENTS (CONTINUED)

- The evaluation of key inputs into the Black Scholes model, including the significant judgement of the forecast volatility of the performance right over its exercise period.

The value of these share-based payment arrangements has been deemed a key area of focus for our audit.

#### 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 2021 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 has 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 these financial statements is located at the Auditing and Assurance Standards Board website at:

[http://www.auasb.gov.au/auditors\\_responsibilities/ar1.pdf](http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf)

This description forms part of our independent auditor's report.

## Report on the Remuneration Report

### Opinion on the Remuneration Report

We have audited the Remuneration Report included in the directors' report accompanying these financial statements for the year ended 30 June 2021.

In our opinion, the Remuneration Report of Cann Group Limited, for the year ended 30 June 2021, 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.

William Buck

**William Buck Audit (Vic) Pty Ltd**  
ABN: 59 116 151 136

A. A. Finnis

**A. A. Finnis**  
Director

Melbourne, 23 August 2021