AusCann

Annual Report 30th June 2021

AusCann Group Holdings Ltd
ABN 72 008 095 207

Contents

Executive Summary

Cannabinoid-based Healthcare Company

Focused on developing evidence-based healthcare solutions derived from the Cannabis plant for under-served health needs in humans and animals.

Commercialising Novel Products

Two lead patented healthcare products in the early stage of commercialisation; Neuvis® for patients with chronic refractory conditions; and DermaCann® for anti-inflammatory and immune support in dogs.

Advanced in Research & Development

Building a robust dataset of the pharmacological effects, formulation/drug delivery requirements, and research strategies for cannabinoids; Leveraging our data to progress an active R&D pipeline.

Significant Market Opportunities

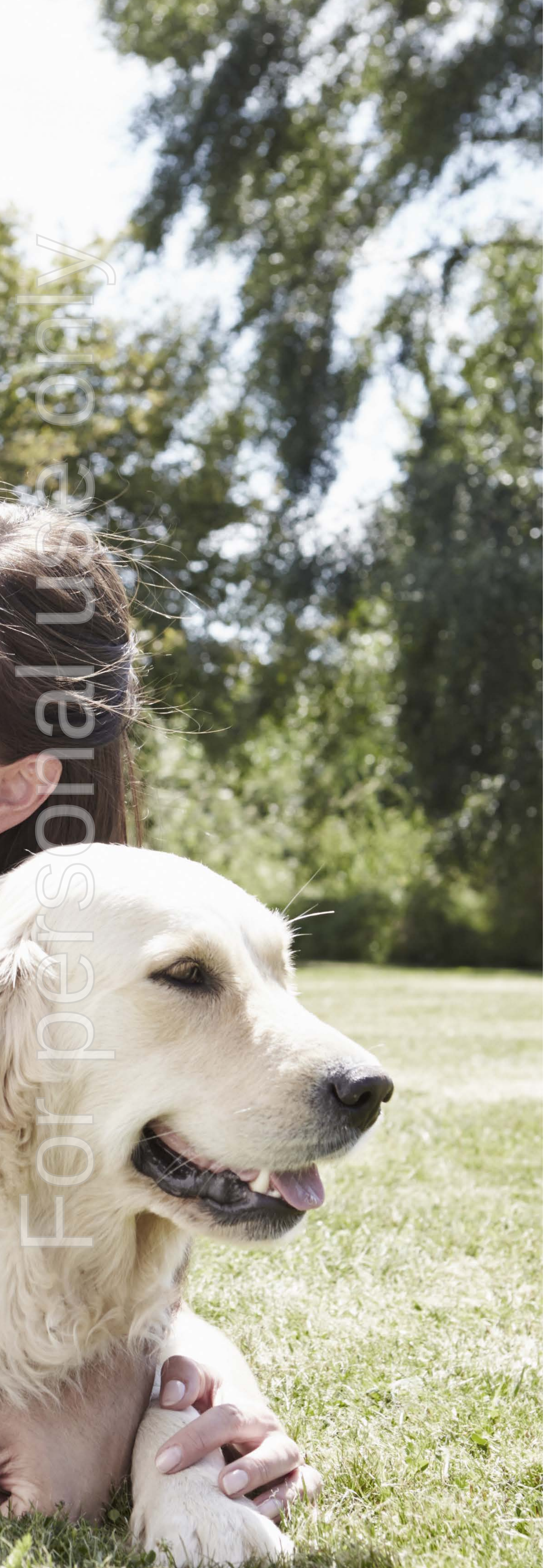
Global market opportunities worth over $10B across human and animal health in the areas under development.

Experienced Board & Management

Experienced Board and Management with a strong track record in the healthcare sector, supported by an entrepreneurial and nimble team.

Well Funded for Growth Milestones

Well capitalised, with $44m net assets and $14m net cash at bank to execute on future growth milestones.



Our Mission

To develop a differentiated portfolio of innovative and standardised cannabinoid-based medicines that expands the therapeutic applications of cannabis, offering both people and pets greater benefit for the treatment of inadequately met medical needs.

We will do this by providing healthcare professionals and veterinarians with reliable therapeutic products, with robust safety, quality assurance and efficacy data to support the treatment of their patients in global jurisdictions with relevant legislation that offer a compelling return on investment.

Our Values

Integrity

To act with integrity and the highest standards of ethics when dealing with stakeholders, including employees, suppliers, partners, customers and shareholders.

Quality

To ensure that AusCann's products are standardised, consistent and reproduceable, based on Good Manufacturing Practice.

Innovation

To develop and manufacture novel cannabinoid-based products that are formulated to address unmet medical needs for patients and pets.

Teamwork

To trust colleagues, share information and achieve organisational goals by working together as an effective team.

Environmental, social and governance

To minimise our environmental footprint; ensure all products are socially sourced; and maintain exemplary corporate governance practices.

Key Highlights for FY21

AusCann remains well funded with net assets of $44.4m (2020 $34.6m) and a net cash position of $13,679,923 as of June 30, 2021. The Company is heading into the new year with an improved cost-base, a restructured organisation and a heavy focus on the development of differentiated, high value cannabinoid-based pharmaceuticals for registration in human and animal pathways.

$44.4m net assets

Well funded with net assets of $44,427,696 (up from $34,635,972 in FY20) and a net cash position of $13,679,923 as of June 30, 2021

$2.94m R&D

Direct research and development expenses were $2,947,926*, which accounted for 51% of the Company's net cash operating cash outflows for FY21

*excluding non-cash and once off acquisition related costs

Successfully completed the acquisition of CannPal Animal Therapeutics Ltd by way of Scheme of Arrangement

September 2020

Generated early data on the proprietary Neuvis® platform with the completion of a 25 subject human Phase 1 pharmacokinetic and safety study of the Company's hard-shell THC:CBD capsules, achieving all endpoints.

October 2020

Established new advisory Board in the areas of quality of life, rehabilitation and pain to explore clinical evaluation opportunities for human based cannabinoid pharmaceutical.

November 2020

Entered into a sale agreement for the divestment of the Company's interest in its Chilean joint venture, DayaCann SpA (DayaCann).

March 2021

Successfully completed the acquisition of CannPal Animal Therapeutics Pty Ltd (CannPal), by way of Scheme of Arrangement, to help expand the Company's pipeline to accelerate human drug development opportunities.

March 2021

Submitted first registration dossier for the approval of DermaCann® with the South African Department of Agriculture, Forestry and Fisheries (DAFF), as an approved herbal supplement for inflammation associated with Atopic Dermatitis in dogs.

1st registration

Submitted the Company's first cannabinoid-based registration dossier for regulatory approval

45% reduction

The net cash used in operating activities was reduced by 45%* in the financial year due to reductions in statutory expenses and operational efficiencies

*excluding one-off costs associated with the CannPal acquisition

April 2021

Received positive clinical results for the Company's 8-week Phase 2A pilot study for FDA veterinary drug candidate, CPAT-01, confirming improvements in pain, lameness and quality of life in dogs with osteoarthritis.

June 2021

Entered into an agreement to lease the Company's Wangara facility as part of a revised growth strategy to reduce operating expenses and maximise the value of the Company's assets.

June 2021

Advanced the product registration strategy for DermaCann® with the submission of a pre-application assistance meeting with the APVMA to agree on a registration timeline and strategy in Australia.

Full Year

A reduction in cash outflow in all administrative areas of the business and net assets of $44.4m (2020 $34.6m) equating to a net asset backing of 10.09 cents per share.

Letter from the Chairman and CEO

Dear shareholders,

On behalf of the Directors of AusCann Group Holdings (ASX:AC8), we are pleased to present our annual report for the 2021 financial year.

FY2021 was a challenging year for AusCann, as it was for many Companies around the world, due to unprecedented and testing times. However, it has been an opportunity for the Company to reflect on its strategy and refine its focus to allow for a much more sustainable future amongst changing and evolving market conditions.

We're proud of the achievements that the Company has made during the financial year, despite the challenging circumstances both externally and internally, and we believe that the decisions made during the year are initial steps towards restoring value in AusCann for all shareholders.

Industry outlook

The 2021 financial year saw positive global regulatory progress in our industry, signalling a shift in the attitude towards medical cannabis and cannabinoid-derived therapeutics.

During 2020, AusCann was pleased to welcome the decision of the Therapeutic Goods Administration in Australia to amend the current classification of cannabidiol (CBD) to include a new Schedule 3, pharmacy only medicine listing. The proposed amendment for CBD products is a major change for Australia and for Australian patients, opening up the potential for more streamlined registration opportunities.

Internationally, a change in leadership in the United States has revitalised hopes for the legalisation of Marijuana, with a new administration that supports decriminalising cannabis. Of most significance is the administrations indication that it will seek to reschedule cannabis as a Schedule II drug to allow researchers to better evaluate the therapeutic benefits of cannabis.

This was complemented by the United Nations Commission on Narcotics historical action to vote in favour of the removal of cannabis and cannabis-related substances from Schedule IV of the international treaty governing narcotic drugs. This has the potential to revitalise the research of cannabinoids around the world, leading to an increase in value of Companies already well advanced with research pipelines.

The positive regulatory progress has extended to the animal health market, with Nevada becoming the first U.S state to authorise veterinarians to recommend and administer CBD under a new law that protects practitioners from disciplinary action for treating veterinary patients.

There are over 40 jurisdictions in the United States that now allow people to take cannabis therapeutically, and it's expected that many of these jurisdictions will follow Nevada as the published research continues to mount for cannabinoids in veterinary patients.

This is welcomed news for AusCann's animal health programs, with the Company now in preparations to introduce our first clinically-validated veterinary product into the U.S in early 2022.

U.S sales of CBD products for pets is projected to be over US$500m by the end of 2025, as more veterinarians learn about the benefits of CBD, not just for people, but for their pets.

We believe the steps that we have, and are taking, positions us well to capitalise on the shift in attitude towards cannabinoid-derived research for people and for pets, and we believe this will enable the Company to benefit from positive tailwinds as a result of the work we are doing.

Year in review

During the year we were pleased to have successfully completed a 25 subject human Phase 1 pharmacokinetic and safety study of the Company's unique oral tetrahydrocannabinol (THC) and cannabidiol (CBD) combination using the Company's proprietary Neuvis® platform of self-emulsifying powder in hard-shell capsules.

The successful completion of this Phase I study enables AusCann to progress its plans to conduct additional research activities leveraging the hard-shell capsules to develop novel cannabinoid-derived therapeutics to address inadequately met medical needs.

Following the completion of the study, the Company established a new advisory Board, headed by Dr Marc Russo, with a number of highly respected medical professionals to guide our development plans in order to deliver best in class products and great outcomes for patients.

This was further supported by the completion of an initial internal R&D review, headed by Dr Ryan Lanier, to help identify opportunities to extend our pipeline of products for specific indications, based on the unique Neuvis platform®.

The Company commenced initial pilot scale commercialisation for the Neuvis® 1:1 THC:CBD hard-shell capsules during year, via the SAS-B pathway in Australia, for patients with refractory chronic conditions. We've been pleased with the endorsement for the Neuvis® platform by healthcare practitioners, and the number of prescribers has grown quarter over quarter with repeat prescriptions accounting for over 65%.

However, SAS-B is a distribution channel that wasn't designed to be high volume, and we expect the revenues by companies operating in the SAS-B channel to remain relatively small until the regulatory framework improves, which will happen over time. As such, we will continue to explore ways in which we can leverage this platform for product registration opportunities in FY22.

During the year, AusCann was pleased to engage Ingenu, a clinical research organisation specialising in medical cannabis research, to futher build on the fantastic work completed by AusCann's team of advisers. Ingenu, will be completing a technical review of AusCann's existing animal data and internal research assets, to support new cannabinoid-based drug development programs for human registration pathways in 2022.

During the year, we exited our commercial arrangements with DayaCann in Chile both to align with our refined strategic focus on the development of registered products, and in recognition of the difficulties of operating in markets such as Chile. The Company has received its first payment instalment for the divestment, providing AusCann shareholders with a much better outcome than simply exiting the joint venture.

And we were pleased to announce to shareholders that AusCann had entered into an agreement to lease the Company's Wangara facility as part of its revised growth strategy to reduce operating expenses and maximise the value of the Company's assets. While the completion of the facility was a major achievement for AusCann, with changes in market conditions and growing capacity, the economics of operating the facility meant it was under-utilised and better providing ongoing revenues to help fund core R&D activities.

In addition to our progress towards human research and development, the Company successfully completed the acquisition of CannPal Animal Therapeutics Pty Ltd (CannPal), by way of Scheme of Arrangement, to help expand the company's pipeline of products nearing commercialisation and accelerate its human drug development opportunities.

The regulatory landscape in the animal health industry is more favourable for commercialisation than human health both in Australia and globally. And much of the research completed within animals can be leveraged in the development of therapeutic products for humans, thereby enabling better speed to market.

Additionally, the acquisition has brought about positive change in the leadership team in the Company, which has since led to a significant reduction in cash outflows across all administrative areas of the business.

Since completing the acquisition of CannPal, we were pleased to announce a number of significant milestones for our animal health programs.

This included the completion of the Company's 8-week Phase 2A pilot clinical study for FDA veterinary drug candidate, CPAT-01, confirming improvements in pain, lameness and quality of life in dogs with osteoarthritis over the 8-week trial period.

CPAT-01 is a standardised Phase 2 veterinary pharmaceutical candidate derived from natural THC and CBD extracts, in development for FDA/CVM (U.S Food and Drug Administration, Centre for Veterinary

Medicine) approval as a safe and effective veterinary medicine for pain and inflammation in dogs.

The veterinary pain and inflammation market is worth over US$1b globally and there is a need for viable treatment alternatives for dogs, particularly the elderly and compromised dogs where current treatments for pain and inflammation may be undesirable due to their potential negative side effect profiles or lack of effect.

Along with the CPAT-01 program, the Company was delighted to have submitted its first registration dossier for the approval of DermaCann® with the South African Department of Agriculture, Forestry and Fisheries (DAFF), as an approved herbal supplement for inflammation associated with Atopic Dermatitis in dogs.

The South Africa submission was complemented with the submission of a pre-application assistance meeting with the Australian Pesticides and Veterinary Medicines Association (APVMA), to agree on a registration timeline and strategy in Australia for DermaCann®.

Post the end of the financial year, the Company announced that it had submitted its first module to the APVMA to commence the submission of its dossier for the registration of DermaCann® in Australia.

The global canine skin and dermatitis market is worth over US$1b globally, and subject to approval, DermaCann® would be the first and only APVMA-approved, cannabinoid-based veterinary product to be legally supplied via prescription through Australian veterinarians.

The year ahead

Post the successful integration of CannPal and AusCann, the Company is heading into the new financial year with a rich pipeline 4 years into the research, development, and commercialisation journey, headed by a new leadership team, focused on getting good quality work done.

As a result of the steps taken during the year, we are now fit for purpose, being well capitalised, unburdened by non-strategic loss making operations, and building on a strong platform of clinically developed and IP protected products that will form the basis of a successful and sustainable future, the first of which will be properly commercialised in this financial year.

The positive changes seen in the global regulatory landscape have demonstrated that the value of the market is in the research, development and commercialisation of IP protected and clinically validated, cannabinoid-derived products for human and animal health.

AusCann has taken a global leadership position in animal health, and is leveraging that position to invest in, and accelerate, high potential human drug candidates for registration opportunities in global markets.

The Australian medicinal cannabis market is expected to reach a total size of AUD$200m over the next 12 months, and while the Special Access Pathway (SAS-B) is an important path to facilitate the compassionate use of much needed medicine, it will require a much a better framework to support a sustainable business environment for all industry participants.

Whereas Epidiolex, the first FDA approved cannabinoid-drug for seizures associated with Lennox-Gastaut syndrome, has generated sales of approximately USD$500m in its second-year of registration, with expectations to hit peak sales of over USD$1b. While it was no overnight success, having been in development for many years, this evidences the clear opportunity for clinically validated, cannabinoid-derived therapeutic products.

We are leading the way in building a broad dataset of the pharmacological effects and research strategies for cannabinoid drug development, and our animal research as a result of the CannPal acquisition, is providing leverage to accelerate our human drug development efforts.

In the coming year, our focus will be heavily placed on commercialising our animal programs and investing in high-value R&D, accelerated by the robust data we are generating, to build out a pipeline of advanced human candidates supported by defensible intellectual property.

As demonstrated, one highly valuable commercial product opportunity in an area of unmet medical need with IP protection, can create meaningful change for our Company and for the patients that we serve.

We are entering into the new financial year in a much better position to create meaningful change for AusCann shareholders, with a more dynamic and focused team that is investing in opportunities that we believe will help change patient's lives, while also creating the best return on investment

The Board and Executive team are mindful of the underperformance of our share price in the previous years, and we would like to thank all shareholders for the continued support of our Company.

We believe in the last year we have created a much stronger Company capable of rewarding your patience, and we remain optimistic as the Company continues its journey as a much more focused and streamlined business, with a talented, motivated and committed team.

K. Maxwell Johnston

Max Johnston

Chairman and
Non-Executive Director

Layton Mills

Chief Executive Officer

"AusCann is focused on the development of high-quality, evidence-based therapeutic health products derived from cannabinoids, that address unmet needs for animals and humans respectively."

Company Information

AUSCANN Group Holdings Ltd
ABN 72 008 095 207

Directors

Mr Max Johnston
Dr Kathryn Adams (appointed 1 April 2021)
Ms Krista Bates
Mr Robert Clifford (appointed 1 April 2021)
Mr Bruce McHarrie
Mr Chris Mews
Mr Geoff Starr (appointed 1 April 2021)
Dr Marcel Bonn-Miller (resigned 3 October 2020)

Joint Company Secretaries

Ms Susan Park
Mr Quentin Megson (resigned 29 April 2021)

Registered Office

Level 5
35 Havelock Street
West Perth WA 6005

Website

https://auscann.com.au/

Auditors

PKF Perth
Level 4
35 Havelock Street
West Perth WA 6005

Share Registry

Computershare Investor Services Pty Ltd
Level 11
172 St Georges Terrace
Perth WA 6000

Securities Exchange

Australian Securities Exchange Ltd

ASX Code

AC8

AusCann

Directors and Financial Report

for the year ended 30th June 2021

AusCann Group Holdings Ltd
ABN 72 008 095 207

Directors' Report

The Directors present their report together with the financial statements of AusCann Group Holdings Ltd ("the Company" or "AusCann") and its controlled entities (collectively "the consolidated entity") for the year ended 30 June 2021.

Directors

The following persons were directors of the Company during the financial year and up to the date of this report, unless otherwise stated:

Mr Max Johnston

Dr Kathryn Adams – Appointed 1 April 2021

Ms Krista Bates

Mr Robert Clifford – Appointed 1 April 2021

Mr Bruce McHarrie

Mr Chris Mews

Mr Geoff Starr – Appointed 1 April 2021

Dr Marcel Bonn-Miller – Resigned 3 October 2020

Board and Committee Meetings

	Directors' Meetings		Audit and Risk Committee Meetings[3]		Remuneration and Nomination Committee Meetings[4]	
Directors	Meetings held whilst in office	Attended	Meetings held whilst in office	Attended	Meetings held whilst in office	Attended
Robert Maxwell (Max) Johnston	14	14	–	–	–	–
Dr Kathryn Adams[1]	2	2	–	–	–	–
Krista Bates	14	14	3	3	–	–
Robert Clifford[1]	2	2	–	–	–	–
Bruce McHarrie	14	14	3	3	–	–
Chris Mews	14	11	3	3	–	–
Geoff Starr[1]	2	2	–	–	–	–
Dr Marcel Bonn-Miller[2]	4	3	–	–	–	–

1. Dr Adams, Mr Clifford and Mr Starr were appointed as Non-Executive Directors on 1 April 2021.
2. Dr Bonn-Miller resigned on 3 October 2020.
3. The members of the Audit and Risk Committee were Mr B. McHarrie (Chair), Ms K. Bates (member) and Mr C. Mews (member) until 19 April 2021. Following 19 April 2021, the members were Mr B. McHarrie (Chair), Ms K. Bates (member), Mr C. Mews (member) and Mr R. Clifford (member).
4. The full Board acted in the capacity and under the adopted Charter of the Remuneration and Nomination Committee prior to 19 April 2021. The members of the Remuneration and Nomination Committee post 19 April 2021 were Mr G. Starr (Chair), Mr R. M. Johnston (member) and Dr K. Adams (member).

Information on Directors

Max Johnston

Independent Non-Executive Chairman
FICD, MAICD

Max is a highly regarded health care industry director with a broad range of executive and pharmaceutical experience. He is currently a Non-Executive Director on the Boards of ASX-listed companies BARD1 Life Sciences, and Medical Developments International, and was previously a Non-Executive Director on the Board of PolyNovo. Max previously held the position of President and Chief Executive Officer of Johnson & Johnson Pacific, a division of the world's largest medical, pharmaceutical and consumer healthcare company for 11 years.

Directorships held in other listed entities

BARD1 Life Sciences Limited (ASX:BD1); Medical Developments International Limited (ASX:MVP); PolyNovo Limited (ASX:PNV) – resigned 13 November 2020

Interests in shares and other equity

1,000,000 fully paid ordinary shares

Dr Kathryn Adams

Independent Non-Executive
(appointed 1 April 2021)
BSc, BVMS, BComm

Dr Adams is an entrepreneur and Veterinarian with an interest in innovation, science and fast growing emerging biotechnology companies. Dr Adams is the owner of Bondi Veterinary Hospital and is a TV host for Channel 9's Bondi Vet. Dr Adams has held senior leadership roles for the Federal Attorney-General's Portfolio including as an Analyst, Principal Adviser and Chief of Staff for a number of Royal Commissions and holds a Bachelor of Science, Bachelor of Veterinary Medicine and Surgery and a Bachelor of Communications.

Directorships held in other listed entities

Dr Adams is a director of CannPal Animal Therapeutics Limited (ASX:CP1), which was acquired by the Company on 18 March 2021 and subsequently delisted from the ASX.

Interests in shares and other equity Nil

Krista Bates

Independent Non-Executive
BA(Hons), Grad Dip (Law), PostGrad Dip (Law), GAIDC

Krista brings over 21 years of expertise in the legal market. She was a Partner at leading Western Australian law firm Lavan specialising in Corporate law and was Head of Mining & Resources and the Medical Cannabis Group. Krista has led transactions with deal values ranging from $20,000 to $5.5 billion across multiple sectors advising a diverse base of private and listed companies, private equity funds, governments and individuals, nationally and internationally. Recently Krista founded KB Corporate Advisors.

Directorships held in other listed entities

Neurotech International Limited (ASX:NTI)

Interests in shares and other equity

427,500 fully paid ordinary shares

Robert Clifford

Independent Non-Executive
(appointed 1 April 2021)

For over 25 years, Mr Clifford has been at the forefront of Australia and New Zealand's food and beverage industry. An industry professional and expert in food and destination development. Mr Clifford has extensive experience in developing new concepts for a wide range of markets. Beginning his career in hospitality with the Hyatt International Hotels and Resorts, Mr Clifford has held various executive management positions in Perth, Canberra and Macau. Mr Clifford was the Perth Convention Exhibition Centre's Chief Executive Officer before moving to Melbourne, where he led Australia's largest catering brand, EPICURE. Mr Clifford established Alto Cibum Consulting in 2015, providing business strategy to a range of private sector businesses and government bodies. Mr Clifford holds several board positions in listed companies, not for profit and start-up companies. Mr Clifford was privileged to open the Dublin office for the Irish Australian Chamber of Commerce during his tenure as president. He is an active member of the Irish Australian community with involvement in trade negotiations.

Directors' Report continued

Directorships held in other listed entities

Mr Clifford is a director of CannPal Animal Therapeutics Limited (ASX:CP1), which was acquired by the Company on 18 March 2021 and subsequently delisted from the ASX.

Interests in shares and other equity

624,380 fully paid ordinary shares

Bruce McHarrie

Independent Non-Executive
BCom, FCA, GAICD

Mr McHarrie is a company director and adviser in the health and life sciences sector with over 25 years' experience. He was formerly with the Telethon Kids Institute in Perth for 15 years, where his roles included Chief Financial Officer, Director of Operations and Director of Strategic Projects. Prior to joining Telethon Kids, Mr McHarrie was based in London as a Senior Manager at Deloitte before moving to Rothschild Asset Management as Assistant Director of the BioScience Unit, a life sciences private equity group investing in early-stage biotechnology, healthcare and agribusiness companies. Outside his role at Auscann, he is currently an advisor to BioScience Managers Pty Ltd, an international healthcare investment firm that finances and enables innovative science and technology in the life science sector, a director at Adherium Ltd (digital health) and Pharmamark Nutrition Pty Ltd (nutritional foods).

He is a Fellow of the Institute of Chartered Accountants Australia and New Zealand, holds a Bachelor of Commerce degree from the University of Western Australia, and is a graduate member of the Australian Institute of Company Directors.

Directorships held in other listed entities

Adherium Limited (ASX:ADR)

Interests in shares and other equity

114,286 fully paid ordinary shares

Chris Mews

Non-Executive
BBus (Acc), CPA

Chris is an experienced non-executive director with over 20 years in the financial services sector, having held senior positions in finance, corporate secretarial and compliance in listed and unlisted companies. Chris is currently the Chief Financial Officer and Company Secretary of Merchant Group Pty Ltd, a Perth based financial services firm that provides funds management and corporate finance services, with investment experience both in Australia and internationally in the medical cannabis sector. Prior to Merchant Group, he was the Chief Financial Officer and Company Secretary of listed biotech Company Polynovo Limited (ASX:PNV) and is currently Non-Executive Director of Health House International Limited (ASX:HHI) and Cycliq Group Limited (ASX:CYQ).

Directorships held in other listed entities

Health House International Limited (ASX:HHI)
Cycliq Group Limited (ASX:CYQ)

Interests in shares and other equity

279,689 fully paid ordinary shares

Geoff Starr

Independent Non-Executive
(appointed 1 April 2021)
BA(HONS), GAICD

Mr Starr brings over 35 years of executive experience to the company, 15 years of which was at Managing Director or CEO level, gained all around the world, but especially in Asia, Europe and Australia/New Zealand. These positions included high level corporate companies such as Unilever and Mars Group, where Geoff had a very distinguished career running their pet food business in both Asia and Europe with over 20 brands in their portfolio, including Royal Canin, Whiskas, Advance and Pedigree.

Directorships held in other listed entities

Mr Starr is a director of CannPal Animal Therapeutics Limited (ASX:CP1), which was acquired by the Company on 18 March 2021 and subsequently delisted from the ASX.

Interests in shares and other equity

360,000 fully paid ordinary shares

Dr Marcel Bonn-Miller

Independent Non-Executive
(resigned 3 October 2020)
PhD

Dr. Bonn-Miller is Global Clinical Scientific Director of Spectrum Therapeutics, the medical division of Canopy Growth specialised in the development and commercialisation of validated cannabis medicines.

Dr. Bonn-Miller is a world-renowned researcher and pharmaceutical executive, bringing over 18 years of extensive clinical research and development expertise in cannabinoid-products for medical use. He has received funding for 27 research grants, has published 140 peer-reviewed academic papers and has led or contributed to 19 clinical trials. Prior to Canopy Growth, Dr. Bonn-Miller was Director of Cannabinoid Research for Zynerba Pharmaceuticals, a leading transdermal cannabinoid pharmaceutical company.

Directorships held in other listed entities

Dr Bonn-Miller has not been a director of in any other listed company within the last three years.

Interests in shares and other equity

Nil.

Company Secretary

Susan Park

BCom, ACA, F Fin, FGIA, FCG, GAICD

Ms Park has 25 years' experience in the corporate finance industry. She is founder and managing director of consulting firm Park Advisory Pty Ltd (formerly Hunter Corporate Pty Ltd), which specialises in the provision of corporate governance and company secretarial advice to ASX listed companies, and has previously held senior management roles at Ernst & Young, PricewaterhouseCoopers and Bankwest, both in Perth and Sydney.

Chief Financial Officer

Charles Altshuler

appointed 29 March 2021

(CA(ANZ), CA(SA), MBA, BCom Honours, Dip Project Management)

Mr Altshuler has a wealth of experience accumulated from his 16 year career both in Australia and overseas in a mix of small entrepreneurial and global companies. Mr Altshuler's career includes 8 years of senior finance and operational roles in manufacturing/mining and over 5 years in healthcare/pharmaceutical companies. During this time he has acquired experience and demonstrated success in financial management and control, business integration, process improvements and the commercialisation of products from the development stage through the entire supply chain. Moving from Bod Australia Limited as the CFO he already understands the medical cannabis prescription and over the counter markets both in Australia and globally. Mr Altshuler has also held senior positions in finance and supply at significant international companies such as Blackmores Limited and Anglo American PLC. Mr Altshuler holds two degrees in accounting and finance, is a Chartered Accountant and also holds an MBA from Torrens University and a senior project management diploma from Stanford University.

State of Affairs

On 18 March 2021, AusCann acquired 100% of CannPal Animal Therapeutics Limited ("CannPal") via a scheme of arrangement ("Scheme") under which CannPal shareholders received 1.3 AusCann shares for each CannPal share held at 15 March 2021. This resulted in the share capital increasing by $17,907,464 (from $75,468,632 to $93,165,187, net of share issue costs) and the share-based payment reserve increasing by $524,049. Details of the share-based payment under the Scheme are disclosed in Note 20(a) to the financial statements and details of the acquisition of CannPal are disclosed in Note 13 to the financial statements.

The consolidated entity also finalised the sale of its 50% interest in its Chilean joint venture, DayaCann SpA ("DayaCann"), and the transfer of the Company's loan for USD $1.5 million, as announced on 22 March 2021. For details of the sale and transfer of loan see Note 14 to the financial statements.

There were no other significant changes in the state of affairs of the consolidated entity during the financial year, other than those discussed already in the financial report and elsewhere in this Directors' Report.

Principal Activities

AusCann's principal activity during the financial year was to develop a differentiated portfolio of innovative and standardised cannabinoid-based medicines that expands the therapeutic applications of cannabis, offering both people and pets greater benefit for the treatment of inadequately met medical needs.

AusCann does this by providing healthcare professionals and veterinarians with reliable pharmaceutical and nutraceutical products, with robust safety, quality assurance and efficacy data to support the treatment of their patients in global jurisdictions with relevant legislation that offer a compelling return on investment.

Operating Results and Financial Position

The loss of the consolidated entity for the financial year was $8,641,391 (2020: $7,076,213), which included $212,511 of non-cash share-based payments, a $2,593,417 non-cash impairment of inventories, and one-off costs of $1,172,798 relating to the acquisition of CannPal Animal Therapeutics Limited (CannPal).

Excluding one-off costs, the net cash used in operating activities during the year reduced by 45% to $5,759,140 (2020: $10,550,511) due to reductions in statutory expenses, shared resources, operational efficiencies, and a streamlined organisational structure as a result of the acquisition of CannPal.

Direct research and development expenses of $2,947,926 (2020: $2,707,134) accounted for 51% of the Company's net cash operating outflows for the financial year and relates to core revenue generating activities for the Company's lead medicinal cannabis programs.

Total income for the Company is up 7% predominately due to the refund from the Australian Taxation Office of $1,561,518 (2020: $1,207,175) in accordance with the Australian Government's Research and Development Tax Incentive Program.

One-off merger and acquisition fees of $1,172,798 represent the costs of the Scheme of Arrangement between CannPal and its shareholders in relation to the acquisition in March 2021 of all the shares in CannPal. This resulted in the net assets for the consolidated entity increasing to $44,427,696 at 30 June 2021, up from $34,635,972 as at 30 June 2020. The acquisition of CannPal contributed $17,037,944 in intangible assets, partially netted off with continued operational expenditure.

A non-cash impairment of inventories during the year of $2,593,417 relates to a write down in the value of raw materials due to changes in the wholesale cost of cannabinoid resins resulting from downward pressure on API prices with increased competition in global markets. This has reduced the retail floor price of medical cannabis products reducing the net realisable value of the resins. This provision will be reassessed as the group progresses its research, development and commercialisation programs.

Additional non-cash expenditure relating to depreciation and amortisation amounting to $685,794 for the year (2020: $94,776) relates to the use of the consolidated entity's facility in Wangara, Western Australia. On 17 June 2021 the Company entered into an agreement to lease this facility, contributing $475,000 (excluding GST) per year going forward in rental income with the tenant also assuming the cost of the outgoings.

Relating to the intellectual property resulting from the CannPal acquisition, the Company will amortise these intangibles using the straight-line method over 5 to 12 years. This is based on management's assessment of other similar products within the industry and takes into consideration the existing patents with expiry dates between 2039 and 2040, and trademarks with renewal dates between 2029 and 2030.

Profit from discontinued operations of $1,934,254 (2020: $219,908) are in respect to the sale of the Company's right, title and interest in its 50% owned Chilean joint venture, DayaCann SpA (DayaCann). The agreement included the transfer of the Company's loan with DayaCann to GFC.

AusCann received an upfront payment of USD $200,000 in December 2020 and USD $200,000 in March 2021 in consideration for AusCann's 50% interest in DayaCann shares. AusCann also received an upfront payment of $USD 100,000 in February 2021 and expects to receive further receipts totalling USD $1 million towards the transfer of the loan. These amount to a total consideration of USD $1.5 million for the sale of the joint venture and the transfer of the loan.

AusCann remains well funded with net cash of $13,679,923 (2020: $19,165,661).

Review of Operations

The AusCann Group Holdings consolidated entity (AusCann) is pleased to report on its 2021 financial year.

Entered into Sale Agreement for DayaCann JV Interest

In November 2016, AusCann formed a 50:50 Joint Venture with Fundación Daya in Chile to cultivate and supply local and global markets with cost-effective medicinal cannabis. DayaCann today is the only commercial-scale medical cannabis cultivation company in Chile that obtained production licences to complete multiple harvests yielding a total of over 1,000kg of dried cannabis flower.

However, the Chilean government has constrained the supply of cannabis to Chilean patients and has not approved the export of medicinal cannabis out of Chile, which was previously anticipated by the Company. AusCann has evolved its strategy to focus on differentiated, high value cannabinoid-based pharmaceuticals, and as a result, the Chilean joint venture became a non-core activity.

On the 22nd of March 2021, AusCann announced it had finalised the sale of the Company's right, title and interest in its 50% owned Chilean joint venture, DayaCann SpA (DayaCann), and the transfer of the Company's loan in order to move away from cultivation and place its focus on the development of differentiated medicines.

On the 1st of February 2021, the consideration for the sale of the DayaCann shares and the first instalment for the transfer of the loan were received, amounting to a receipt of US$500,000. Two further receipts are due for the combined amount of US$1,000,000 over the next two years.

Scheme of Arrangement with CannPal Animal Therapeutics Pty Ltd

On the 16th of November 2020, AusCann announced it had entered into a scheme implementation deed (Scheme) with CannPal Animal Therapeutics to acquire 100% of the issued share capital of CannPal. The Scheme was successfully implemented on the 18th March 2021.

CannPal and AusCann are both focused on the development of high-quality, evidence-based therapeutic health products derived from cannabinoids, that address unmet needs for animals and humans respectively.

CannPal has been generating robust data on the safety and development of cannabinoid-derived therapeutic products for over 3 years, which provides the potential to accelerate human development programs through generated data and know-how. This includes the completion of clinical trials, pharmacokinetic studies, gene expression profiling and inflammatory biomarker research in over 130 dogs, along with human user safety studies and various independent GLP (good laboratory practises) in-vitro and in-vivo toxicological studies on cannabinoids and cannabinoid formulations.

The Scheme between the two complementary Companies presented an attractive opportunity for shareholders due to the strengthened leadership, operating synergies and ability to leverage research, technology and know-how across human and animal health product development and accelerate pipeline development to commercialisation.

The Combined entity is building a robust library of cannabinoid-derived research, and has a proprietary product and technology pipeline that includes, amongst others;

- **Neuvis®:** Neuvis® is AusCann's controlled-dose technology platform for delivering cannabinoids to human patients, with the first product in the range being a THC:CBD hard-shell capsule in a 1:1 ratio, in both a 2.5mg and 10mg strength. The unique properties of the capsules include dose reliability, delivery format familiarity (hard-shell capsules), and consistent performance through the shelf life of the product. AusCann has recently completed a randomised, open-label, cross-over Phase I study evaluating the pharmacokinetics and safety, which recruited 28 (25 completed) fed healthy volunteers, and is exploring the development of additional products through regulated human pathways using the Neuvis® platform which may be accelerated by leveraging CannPal formulations and data.
- **CPAT-01:** CPAT-01 is a liquid, oral veterinary medicine containing standardized THC and CBD whole plant extracts in a proprietary ratio to target pain and inflammation in dogs. Presently CannPal is researching the benefits of CPAT-01 in dogs with osteoarthritis, with the aim of developing an FDA-CVM (Food and Drug Administration, Centre for Veterinary Medicine) regulatory approved veterinary medicine for commercialisation in the US. CPAT-01 is in Phase II, with CannPal having completed research in over 100 dogs, including a successful randomised, double-blind, placebo controlled clinical trial in 46 client owned dogs with osteoarthritis. This was complemented by the establishment of CannPal's first Investigational New Animal Drug file (INAD)

Review of Operations continued

with the Food and Drug Administration, Centre for Veterinary Medicine (FDA-CVM) for this key drug candidate.

- **DermaCann®:** is CannPal's lead CBD-derived nutraceutical in development for healthy skin and immune function in dogs with dermatological conditions. The product is a liquid oral oil formulation containing CBD in a patented formulation with a proprietary blend of other bioactive lipids designed to target inflammation and immune modulation pathways. CannPal has recently completed a successful clinical study for DermaCann in a cohort of dogs with Atopic Dermatitis. The results of this study, alongside other generated data, will be used to support the registration and commercialisation of DermaCann as a veterinary medicine in a number of key markets. It's expected that, subject to approval, DermaCann® will become a world 'first in class' regulatory approved oral cannabinoid-based veterinary product for skin health in dogs, and the first and only APVMA-approved medicine containing cannabinoids to be supplied via prescription through Australian veterinarians. In addioton to Australia, approval is being sought in South Africa under the registration pathway.
- **MicroMAX®**: In June 2018, CannPal entered into an agreement with the Commonwealth Scientific and Industrial Research Organisation (CSIRO) under the CSIRO's Kick-Start initiative, to research the use of patented microencapsulation technologies for enhancing the delivery of cannabis-based animal health products. During the financial year ended 30 June 2020, CannPal was granted the global exclusive rights to commercialise patented MicroMAX® encapsulation technology by CSIRO for use in the field of Animal Therapeutics. Since finalising the licencing agreement CannPal commenced a successful pilot test for a nutraceutical product for dogs in the U.S to validate the technology in a dietary supplement format. The Company is now completing commercial manufacturing scale up to enable the business to produce hemp and cannabinoid-derived animal health products at scale.

Leadership Post-Implementation of CannPal Acquisition

On January the 8th 2021, following the CannPal acquisition, it was announced that the Founder and Managing Director of CannPal, Mr Layton Mills, would lead the combined company post the implementation of the Scheme of Arrangement. The decision to appoint Mr Mills as CEO was reached following a combined meeting of the Boards of CannPal and AusCann.

Mr Nick Woolf, the outgoing CEO of AusCann, agreed to stay with the Company until the completion of the Transaction, and thereafter in an advisory capacity to assist with an orderly transition of the CEO role until 30 June 2021.

Mr Mills is an experienced entrepreneur, having worked in the life-sciences and fast-moving consumer goods industries for over 13 years where he developed and launched a number of CPG products in Australia, gaining significant experience across various product categories in both human and animal health.

Mr Mills commenced in the role on the 18th of March 2021 and since then, has undertaken a rigorous review of the Company's operations and strengthened the team with the appointment of key people in the areas of marketing, quality assurance and supply chain, to support commercialisation ahead of the registration of the Company's first cannabinoid-derived therapeutic product.

As a result of the operational review, the Company has also made strategic decisions to better utilise its assets, reset the cost base ahead of FY22, and refocus its resources on high-value research and development activities.

This has included an agreement to lease the Company's Wangara facility; an impairment to raw material inventories as a result of global changes in the wholesale cost of cannabinoid resins; and a thorough review of the synergies in research between human and animal health with a focus on expanding the Company's research programs in FY22.

Dr Margaret Curtis has been appointed as Chief Scientific Officer of the combined entity to leverage the research synergies between CannPal and AusCann and drive the expansion of the Company's pipeline in the coming financial year. Dr Curtis was the head of research and development at CannPal, where she helped lead the design and execution of the Company's lead cannabinoid-derived pharmaceutical and nutraceutical research programs.

Leasing of Wangara Facility

On June 17th, 2021, AusCann announced that it had entered into an agreement to lease the Company's R&D facility in Western Australia to Source Certain Internation -al ('SCI'), an Australian scientific technology Company that provides services to the food, agriculture and pharmaceutical industries, including medicinal cannabis.

Leasing the R&D facility is part of AusCann's evolving strategy to maximise the value of its assets to allow more resources to be placed on the development of differentiated, high value cannabinoid-based pharmaceuticals.

Given AusCann's current supply chain and R&D strategy, particularly following the Scheme of Arrangement with CannPal, the Company agreed to lease the R&D facility to SCI, to further reduce the Company's non-R&D related cash outflows, allowing the Company to focus more time and focus on expanding its research pipeline and commercialisation opportunities which are expected to provide the greatest return on investment.

The lease agreement provided AusCann with an immediate reduction in its cost base and a rental income of $475,000 p.a. ex GST (subject to CPI increases and rent reviews) following a 6-month rent free period which commenced on May 1st, 2021.

Dividends

No dividends were paid or declared during the year (2020: nil).

Events Subsequent to Reporting Date

The impact of the Coronavirus (COVID-19) pandemic is ongoing and while it has been financially positive for the consolidated entity up to 30 June 2021, it is not practicable to estimate the potential impact, positive or negative, after the reporting date. The situation is rapidly developing and is dependent on measures imposed by the Australian Government and other countries, such as maintaining social distancing requirements, quarantine, travel restrictions and any economic stimulus that may be provided.

The remaining 181,100 Class A Performance Rights lapsed on 6 August 2021.

Other than as identified above, no events occurring subsequent to the end of financial year have significantly affected, or may significantly affect, the operations of the consolidated entity in subsequent financial years.

Indemnification and Insurance of Officers and Auditors

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

During the financial year, the consolidated entity paid a premium in respect of a contract to insure the directors and executives of the consolidated entity against a liability to the extent permitted by the

Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

The consolidated entity has not indemnified the auditor nor paid a premium to insure the auditor against any such liability.

Share Options and Rights

Unissued ordinary shares of the Company under option at the date of this report are as follows:

Grant Date	Expiry Date	Exercise Price	Number
9 June 2020	9 June 2023	$0.255	200,000
9 June 2020	9 June 2024	$0.255	200,000
18 March 2021	24 March 2022	$0.1538	9,425,000
18 March 2021	9 November 2022	$0.1538	325,000
18 March 2021	31 December 2024	$0.1538	650,000

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

Shares Issued on the Exercise of Options

Nil (2020: 50,000) shares were issued on exercise of options at various times during the year ended 30 June 2021. No ordinary shares were issued on the conversion of performance shares and rights during the years ended 30 June 2021 and 30 June 2020.

Corporate Governance

The Board of AusCann has responsibility for corporate governance for the Company and its subsidiaries and has implemented policies, procedures and systems of control with the intent of providing a strong framework and practical means for ensuring good governance outcomes which meet the expectations of all stakeholders.

The consolidated entity's corporate governance policies are outlined on its website at https://auscann.com.au/investors/corporate-governance/.

Remuneration Report (Audited)

This report, which forms part of the Directors' Report, outlines the remuneration arrangements in place for the key management personnel of the consolidated entity for the financial year ended 30 June 2021. The information provided in this remuneration report has been audited as required by Section 308(3C) of the *Corporations Act 2001.*

The remuneration report details the remuneration arrangements for key management personnel ("KMP") who are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the consolidated entity, directly or indirectly, including any director (whether executive or otherwise) of the consolidated entity.

Key Management Personnel

Directors

Max Johnston	Independent Non- Executive Chairman	Appointed 20 December 2019
Dr Kathryn Adams	Independent Non-Executive Director	Appointed 1 April 2021
Krista Bates	Independent Non-Executive Director	Appointed 20 December 2019
Robert Clifford	Independent Non-Executive Director	Appointed 1 April 2021
Bruce McHarrie	Independent Non-Executive Director	Appointed 19 January 2017
Chris Mews	Non-Executive Director	Appointed 1 December 2019
Geoff Starr	Independent Non-Executive Director	Appointed 1 April 2021
Dr Marcel Bonn-Miller	Independent Non-Executive Director	Appointed 5 September 2019, Resigned 3 October 2020

Other Key Management Personnel

Layton Mills	Chief Executive Officer	Commenced 18 March 2021[1]
Nick Woolf	Chief Executive Officer	Commenced 5 August 2020, Ceased 18 March 2021 (continued in advisory capacity until 30 June 2021)
Ido Kanyon	Chief Executive Officer	Commenced 22 May 2019, Resigned 30 August 2020
Charles Altshuler	Chief Financial Officer	Commenced 29 March 2021
Dr Margaret Curtis	Head of Research and Development	Commenced 18 March 2021[1]

1. Mr Mills and Dr Curtis previously held the same roles in CannPal prior to the Scheme for the acquisition of CannPal on 18 March 2021.

Remuneration Philosophy

The objective of the consolidated entity's reward framework is to set aggregate remuneration at a level which provides the consolidated entity with the ability to attract and retain directors and executives of the highest calibre whilst maintaining a cost which is acceptable to shareholders.

Non-Executive Directors

Fees and payments to non-executive directors reflect the demands which are made on, and the responsibilities of, the directors. Non-executive directors' fees and payments are reviewed by the board. The Chairman's fees are determined independently to the fees of non-executive directors based on comparative roles in the external market. The Chairman is not present at any discussions relating to determination of his own remuneration.

Directors' Fees

Directors' fees are determined within an aggregate directors' fee pool limit, which is periodically recommended for approval by shareholders. The maximum for all non-executive directors currently stands at $500,000 in aggregate which was approved by Shareholders on 27 November 2018. This amount is separate from any specific tasks the directors may take on for the consolidated entity in the normal course of business and at normal commercial rates.

Fees for directors are not linked to the performance of the consolidated entity, however to align all directors' interests with shareholders' interests, directors are encouraged to hold shares in the Company and may receive options. This effectively links directors' performance to the share price performance and therefore to the interests of shareholders.

Executive Remuneration

The consolidated entity aims to reward executives (both directors and executives) with a level and mix of remuneration commensurate with their position and responsibilities within the consolidated entity and to:

- Reward executives for consolidated entity performance;
- Align the interest of executives with those of shareholders; and
- Ensure total remuneration is competitive by market standards.

Fixed remuneration is reviewed annually or upon renewal of fixed term contracts by the board and the process consists of a review of consolidated entity and individual performance, relevant comparative remuneration in the market and internal policies and practices. Executives are given the opportunity to receive their fixed remuneration in a variety of forms including cash and fringe benefits. It is intended that the manner of payment chosen will be optimal for the recipient without creating undue cost for the consolidated entity.

The objective of variable remuneration provided is to reward executives in a manner which aligns this element of remuneration with the creation of shareholder wealth. Variable remuneration may be delivered in the form of share options granted with or without vesting conditions.

Remuneration for certain individuals is directly linked to individual performance milestones.

Remuneration Report continued

Employment Contracts

Name	Base Salary	Incentives	Termination Conditions
Layton Mills Chief Executive Officer (commenced 18 March 2021)	$275,000 p.a. plus 9.5% superannuation guarantee (10% superannuation guarantee from 1 July 2021).	Short-term incentive of up to 25% of executive remuneration based on the achievement of certain KPIs, payable in cash each year. Long-term incentive of four equal tranches of 500,000 performance rights each* under the AusCann Employee Securities Incentive Plan approved by shareholders on 27 November 2018 to Mr Mills which will vest subject to achievement of the following goals: Tranche 1: the share price achieving a minimum of $0.30 for 30 consecutive days; Tranche 2: the share price achieving a minimum of $0.50 for 30 consecutive days; Tranche 3: the share price achieving a minimum of $0.75 for 30 consecutive days; and Tranche 4: the share price achieving minimum of $1.00 for 30 consecutive days. On vesting, fully paid ordinary shares will be issued within 12 months of vesting subject to Mr Mills being employed by the Company at that time or the Company releasing this obligation at the time of issuing the shares. Following issue, 50% of the shares will be held in escrow for a further 12 months. In the event of a takeover and change of control, the share price hurdles will be deemed to have been achieved if the takeover consideration meets the minimum share price hurdle.	6 months' written notice by either party, or immediate termination if serious misconduct.
Nick Woolf Chief Executive Officer (commenced 5 August 2020; ceased 18 March 2021, continuing thereafter in an advisory capacity until 30 June 2021)	$300,000 p.a. plus 9.5% superannuation guarantee.	Short-term incentive of up to 25% of executive remuneration based on the achievement of certain KPIs, payable in cash each year.	3 months' written notice by either party, or immediate termination if serious misconduct. Initial 6-month probation period.

Name	Base Salary	Incentives	Termination Conditions
Ido Kanyon Chief Executive Officer (resigned 30 August 2020)	$420,000 p.a. plus 9.5% superannuation guarantee.	Short-term incentive of up to 33% of base salary based on the achievement of certain KPIs, payable in cash each year The Executive may be offered options to purchase shares of a value of up to 33% of base salary accordance with the terms and conditions of any share option plan that may be approved by shareholders from time to time.	6 months' written notice by either party, or immediate termination if serious misconduct. Severance payment equal to 6 months base salary if terminated involuntarily.
Charles Altshuler Chief Financial Officer ("CFO") (commenced 29 March 2021)	$240,000 p.a. plus 9.5% superannuation guarantee (10% superannuation guarantee from 1 July 2021).	Long-term incentive of four equal tranches of 250,000 performance rights each* under the AusCann Employee Securities Incentive Plan approved by shareholders on 27 November 2018 to Mr Altshuler which will vest subject to achievement of the following goals: Tranche 1:the share price achieving a minimum of $0.30 for 30 consecutive days; Tranche 2: the share price achieving a minimum of $0.50 for 30 consecutive days Tranche 3: the share price achieving a minimum of $0.75 for 30 consecutive days; and Tranche 4: the share price achieving minimum of $1.00 for 30 consecutive days. On vesting, fully paid ordinary shares will be issued within 12 months of vesting.	3 months' written notice by either party, or immediate termination if serious misconduct. Initial 3-month probation period.
Dr Margaret Curtis Head of Research and Development (commenced 18 March 2021)	$180,000 p.a. plus 9.5% superannuation guarantee (10% superannuation guarantee from 1 July 2021).	Long-term incentive of four equal tranches of 125,000 performance rights each** under the AusCann Employee Securities Incentive Plan approved by shareholders on 27 November 2018 to Dr Curtis which will vest subject to achievement of the following goals: Tranche 1: the share price achieving a minimum of $0.30 for 30 consecutive days; Tranche 2: the share price achieving a minimum of $0.50 for 30 consecutive days; Tranche 3: the share price achieving a minimum of $0.75 for 30 consecutive days; and Tranche 4: the share price achieving minimum of $1.00 for 30 consecutive days. On vesting, fully paid ordinary shares will be issued within 12 months of vesting.	3 months' written notice by either party, or immediate termination if serious misconduct. Initial 6-month probation period.

1. * The performance rights for Mr Mills and Mr Altshuler have not yet been issued at year end or at the date of this report.
2. ** Dr Curtis' performance rights are effective from 1 July 2021 and has not yet been issued at the date of this report.

Remuneration Report continued

Details of Remuneration

Remuneration for the Year Ended 30 June 2021

	Short-Term Benefits: Director Fees and Salaries $	Short-Term Benefits: Cash Bonuses $	Short-Term Benefits: Advisor Fees $	Post-Employment Benefits $	Share-based Payments $	Total $	Value of Share-based Payments as a Proportion of Remuneration %
Directors							
Max Johnston	79,977	–	–	7,598	–	87,575	–
Dr Kathryn Adams[1]	12,500	–	–	1,188	–	13,688	–
Krista Bates	50,000	–	–	3,563	–	53,563	–
Robert Clifford[1]	12,500	–	–	1,188	–	13,688	–
Bruce McHarrie	60,000	–	–	5,700	–	65,700	–
Chris Mews	50,000	–	–	4,750	–	54,750	–
Geoff Starr[1]	12,500	–	–	1,188	–	13,688	–
Dr Marcel Bonn-Miller[2]	17,331	–	–	–	–	17,331	–
Other Key Management Personnel							
Layton Mills[3]	57,481	–	–	5,461	4,423	67,365	6.6
Nick Woolf[4]	268,846	–	–	22,137	–	290,983	–
Ido Kanyon[5]	94,511	–	–	4,911	81,142	180,564	44.9
Charles Altshuler[6]	56,308	–	–	5,349	1,841	63,498	2.9
Dr Margaret Curtis[7]	26,308	–	–	2,499	–	28,807	–
Total	**798,262**	**–**	**–**	**65,532**	**87,406**	**951,200**	**9.2**

1. Dr Adams, Mr Clifford and Mr Starr were appointed as Non-Executive Directors on 1 April 2021.
2. Dr Bonn-Miller resigned on 3 October 2020.
3. Mr Mills was appointed as Chief Executive Officer ("CEO") of AusCann on 18 March 2021 upon the acquisition of CannPal.
4. Mr Woolf commenced on 5 August 2020 and ceased to be CEO on 18 March 2021, however he continued thereafter in an advisory capacity until 30 June 2021.
5. Mr Kanyon, the CEO prior to Mr Woolf, resigned on 30 August 2020. His salary during the year included an annual leave payout of $16,568 and a severance payment of $26,250.
6. Mr Altshuler was appointed as CFO of AusCann on 29 March 2021.
7. Dr Curtis commenced as Head of Research and Development of AusCann on 18 March 2021 upon the acquisition of CannPal. Upon her commencement she was granted 975,000 AusCann options as part of the Scheme based on 750,000 CannPal options which she held immediately prior to the Scheme. The 975,000 options were valued at $74,103 however there is no share-based payment expense relating to these options as these was part of the purchase consideration to acquire CannPal.

Details of Remuneration

Remuneration for the Year Ended 30 June 2020

	Short-Term Benefits: Director Fees and Salaries $	Short-Term Benefits: Cash Bonuses $	Short-Term Benefits: Advisor Fees $	Post-Employment Benefits $	Share-based Payments $	Total $	Value of Share-based Payments as a Proportion of Remuneration %
Directors							
Max Johnston[1]	40,073	–	–	3,807	–	43,880	–
Dr Marcel Bonn–Miller[2]	34,426	–	–	–		34,426	–
Chris Mews[3]	29,167	–	–	2,771	–	31,938	–
Krista Bates[4]	26,613	–	–	2,528	–	29,141	–
Bruce McHarrie	60,000	–	–	5,700	–	65,700	–
Dr Malcolm Washer[5]	26,667	–	–	2,533	–	29,200	–
Hon. Cheryl Edwardes AM[6]	37,419	–	–	3,555	–	40,974	–
Paul MacLeman[7]	56,667	–	–	5,383	–	62,050	–
Bruce Linton[8]	–	–	–	–	–	–	–
David Pryce[8]	–	–	–	–	–	–	–
Other Key Management Personnel							
Ido Kanyon[9]	420,000	–	–	21,003	17,432	458,435	3.8
Total	**731,032**	**–**	**–**	**47,280**	**17,432**	**795,744**	**2.2**

1. Max Johnston was appointed as a Non-Executive Director on 20 December 2019 and appointed Chair on 19 January 2020.
2. Dr Marcel Bonn-Miller was appointed as a Non-Executive Director on 5 September 2019.
3. Chris Mews was appointed as a Non-Executive Director on 1 December 2019.
4. Krista Bates was appointed as a Non-Executive Director on 20 December 2019.
5. Dr Malcolm Washer resigned as a Non-executive director and Chair on 28 October 2019.
6. Hon, Cheryl Edwardes resigned as a Non-executive director and Chair on 19 January 2020.
7. Dr Paul MacLeman resigned as a Non-executive director on 4 November 2019.
8. Bruce Linton and his Alternate Director resigned on 5 September 2019.
9. Ido Kanyon resigned on 30 August 2020.

Remuneration Report continued

Key Management Personnel Equity Holdings

Fully Paid Ordinary Shares of the Company Held Either Directly or Indirectly

	Opening Balance 1 July 2020	Received as part of Remunera-tion	Held on appointment / (resignation)	Additions	Disposals	Closing Balance 30 June 2021
Directors						
Max Johnston[1]	500,000	–	–	500,000	–	1,000,000
Dr Kathryn Adams[2]	–	–	–	–	–	–
Krista Bates[3]	135,000	–	–	292,500	–	427,500
Robert Clifford[2,4]	–	–	624,380	–	–	624,380
Bruce McHarrie	114,286	–	–	–	–	114,286
Chris Mews[5]	–	–	–	279,689	–	279,689
Geoff Starr[2,6]	–	–	260,000	100,000	–	360,000
Dr Marcel Bonn-Miller[7]	–	–	–	–	–	–
Other Key Management Personnel						
Layton Mills[8]	–	–	12,532,232	–	–	12,532,232
Nick Woolf[9]	–	–	–	–	–	–
Ido Kanyon[10]	129,870	–	(129,870)	–	–	–
Charles Altshuler[11]	–	–	–	–	–	–
Dr Margaret Curtis[12]	–	–	–	–	–	–

1. 390,000 of the AusCann shares acquired by Mr Johnston during the year was acquired under the Scheme.
2. Dr Adams, Mr Clifford and Mr Starr were appointed as a Non-Executive Directors on 1 April 2021.
3. The AusCann shares acquired by Ms Bates during the year was acquired under the Scheme.
4. The 624,380 AusCann shares held by Mr Clifford at the date of his appointment as Non-Executive Director were converted from 480,923 CannPal shares as part of the Scheme.
5. The AusCann shares acquired by Mr Mews during the year was acquired under the Scheme.
6. The 260,000 AusCann shares held by Mr Starr at the date of his appointment as Non-Executive Director were converted from 200,000 CannPal shares as part of the Scheme.
7. Dr Bonn-Miller resigned on 3 October 2020.
8. Mr Mills was appointed as CEO on 18 March 2021. The 12,532,232 AusCann shares held by Mr Mills at the date of his appointment as CEO were converted from 9,640,179 CannPal shares as part of the Scheme. Part of the 9,640,179 CannPal shares Mr Mills held included 1,875,000 CannPal shares issued immediately prior to the Scheme due to their vesting upon a change of control.
9. Mr Woolf commenced on 5 August 2020 and ceased to be CEO on 18 March 2021, however he continued thereafter in an advisory capacity until 30 June 2021.
10. Mr Kanyon, the CEO prior to Mr Woolf, resigned on 30 August 2020.
11. Mr Altshuler was appointed as CFO of AusCann on 29 March 2021.
12. Dr Curtis commenced as Head of Research and Development of AusCann on 18 March 2021, immediately after the acquisition of CannPal.

Key Management Personnel Equity Holdings

Options and Performance Rights of the Company Held Either Directly or Indirectly

	Opening Balance 1 July 2020	Granted	Exercised	Expired / Forfeited / Other	Closing Balance at 30 June 2021
Directors					
Max Johnston	–	–	–	–	–
Dr Kathryn Adams[1]	–	–	–	–	–
Krista Bates	–	–	–	–	–
Robert Clifford[1]	–	–	–	–	–
Bruce McHarrie	–	–	–	–	–
Chris Mews	–	–	–	–	–
Geoff Starr[1]	–	–	–	–	–
Dr Marcel Bonn-Miller[2]	–	–	–	–	–
Other Key Management Personnel					
Layton Mills[3]	–	–	–	–	–
Nick Woolf[4]	–	–	–	–	–
Ido Kanyon[5]	757,100	–	–	(757,100)	–
Charles Altshuler[6]	–	–	–	–	–
Dr Margaret Curtis[7]	–	975,000	–	–	975,000

1. Dr Adams, Mr Clifford and Mr Starr were appointed as a Non-Executive Directors on 1 April 2021.
2. Dr Bonn-Miller resigned on 3 October 2020.
3. Mr Mills was appointed as CEO on 18 March 2021 upon the acquisition of CannPal. In accordance with Mr Mills' employment contract, 2,000,000 performance rights has been granted, however has not yet been issued at year end.
4. Mr Woolf commenced on 5 August 2020 and ceased to be CEO on 18 March 2021, however he continued thereafter in an advisory capacity until 30 June 2021.
5. Mr Kanyon, the CEO prior to Mr Woolf, resigned on 30 August 2020 and his performance rights lapsed upon resignation.
6. Mr Altshuler was appointed as CFO of AusCann on 29 March 2021. In accordance with Mr Altshuler's employment contract, 1,000,000 performance rights has been granted, however has not yet been issued at year end.
7. Dr Curtis commenced as Head of Research and Development of AusCann on 18 March 2021 upon the acquisition of CannPal. The 975,000 AusCann options were granted to Dr Curtis as part of the Scheme based on 750,000 CannPal options which she held immediately prior to the Scheme.

Other Transactions with Key Management Personnel and their Related Parties

There were no payments or transactions with related parties during the year.

This concludes the Remuneration Report, which has been Audited

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.

Remuneration Report continued

Auditor

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

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

On behalf of the directors

Max Johnston
Chairman

27 August 2021

PKF Perth

Advisory • Audit
Business Solutions

AUDITOR'S INDEPENDENCE DECLARATION

TO THE DIRECTORS OF AUSCANN GROUP HOLDINGS LIMITED

In relation to our audit of the financial report of AusCann Group Holdings Limited for the year ended 30 June 2021, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

PKF Perth

PKF PERTH

SHANE CROSS
AUDIT PARTNER

27 AUGUST 2021
WEST PERTH
WESTERN AUSTRALIA

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Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 30 June 2021

	Notes	30 June 2021 $	30 June 2020 $
Sales		84,495	3,204
Less: Cost of goods sold		(69,929)	(2,197)
Net Sales Income		**14,566**	**1,007**
Government grants	2	1,662,103	1,324,675
Gain on disposal of right-of-use asset and lease liability		8,804	–
Rental income		71,250	–
Interest revenue		76,930	385,328
Total Income		**1,833,653**	**1,711,010**
Employee benefits expense	2(i)	(2,645,529)	(2,700,837)
Consulting fees	2(ii)	(422,279)	(555,942)
Merger and acquisition fees		(1,172,798)	–
Research and development (direct costs)	2(iii)	(2,947,926)	(2,707,134)
Depreciation and amortisation	2(iv)	(685,794)	(94,776)
Corporate / Administration expenses		(1,448,050)	(1,370,042)
Impairment of inventories		(2,593,417)	–
Impairment of asset held for resale		–	(406,400)
Other expenses	2(v)	(493,505)	(732,184)
Total Expenses		**(12,409,298)**	**(8,567,315)**
Loss Before Tax from Continuing Operations		(10,575,645)	**(6,856,305)**
Income tax expense	3	–	–
Loss After Tax from Continuing Operations		(10,575,645)	**(6,856,305)**
Profit/(Loss) after income tax expense from discontinued operations	14(a)	1,934,254	(219,908)
Net Loss After Tax for the Year		(8,641,391)	**(7,076,213)**
Other comprehensive income, net of tax		–	–
Total Comprehensive Loss for the Year		**(8,641,391)**	**(7,076,213)**
Loss per Share from Continuing Operations			
Basic and diluted loss per share (cents)	4	(3.00)	(2.16)
Loss per share from Continuing and Discontinued Operations			
Basic and diluted loss per share (cents)	4	(2.45)	(2.23)

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

Consolidated Statement of Financial Position

As at 30 June 2021

	Notes	30 June 2021 $	30 June 2020 $
CURRENT ASSETS			
Cash and cash equivalents	6	13,679,923	19,165,661
Inventories	7	212,898	3,607,571
Assets held for resale	8	–	400,000
Other current assets	15	1,336,945	469,069
Total Current Assets		**15,229,766**	**23,642,301**
NON-CURRENT ASSETS			
Right-of-use asset	9	84,972	84,822
Investment property	10	11,111,439	–
Property, plant and equipment	11	854,061	11,738,064
Intangible assets	12	17,037,944	–
Investment in DayaCann	14	–	–
Other non-current assets	15	801,179	–
Total Non-Current Assets		**29,889,595**	**11,822,886**
Total Assets		**45,119,361**	**35,465,187**
CURRENT LIABILITIES			
Trade and other payables	16	467,095	595,131
Lease liabilities	9	45,433	39,884
Employee entitlements	17	139,266	139,767
Total Current Liabilities		**651,794**	**774,782**
NON-CURRENT LIABILITIES			
Lease liabilities	9	39,871	54,433
Total Non-Current Liabilities		**39,871**	**54,433**
Total Liabilities		**691,665**	**829,215**
NET ASSETS		**44,427,696**	**34,635,972**
EQUITY			
Issued capital	18	93,165,187	75,468,632
Reserves	19	786,388	1,273,328
Accumulated losses		(49,523,879)	(42,105,988)
TOTAL EQUITY		**44,427,696**	**34,635,972**

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

Consolidated Statement of Changes in Equity

For the year ended 30 June 2021

	Issued Capital $	Share-Based Payments Reserve $	Accumulated Losses $	Total $
Balance at 1 July 2019	75,452,467	1,237,108	(35,021,228)	41,668,347
Adjustment for change in accounting policy	–	–	(8,547)	(8,547)
Balance at 1 July 2019 (Restated)	**75,452,452**	**1,237,108**	**(35,029,775)**	**41,659,800**
Loss after tax for the period	–	–	(7,076,213)	(7,076,213)
Other comprehensive income for the period, net of tax	–	–	–	–
	–	–	(7,076,213)	(7,076,213)
Transactions with owners in their capacity as owners				
Issue of shares (net of costs) (refer to Note 18)	10,500	–	–	10,500
Share-based payments (refer to Notes 19, 20(d) and 20(e))	–	41,885	–	41,855
Exercised options	5,665	(5,665)	–	–
Balance at 30 June 2020	**75,468,632**	**1,273,328**	**(42,105,988)**	**34,635,972**
Balance at 1 July 2020	75,468,632	1,273,328	(42,105,988)	34,635,972
Loss after tax for the period	–	–	(8,641,391)	(8,641,391)
Other comprehensive income for the period, net of tax	–	–	–	–
	–	–	(8,641,391)	(8,641,391)
Transactions with owners in their capacity as owners				
Issue of shares and options for acquisition of CannPal (net of costs) (refer to Notes 13 and 18)	17,696,555	524,049	–	18,220,604
Share-based payments (refer to Notes 19 and 20)	–	212,511	–	212,511
Expired options (refer to Note 19)	–	(1,223,500)	1,223,500	–
Balance at 30 June 2021	**93,165,187**	**786,388**	**(49,523,879)**	**44,427,696**

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

Consolidated Statement of Cash Flows

For the year ended 30 June 2021

	Notes	2021 $	2020 $
CASH FLOW FROM OPERATING ACTIVITIES			
Interest received		76,441	387,535
Government grants and incentives		1,712,103	1,274,675
Receipts from customers		47,164	1,334
Payments to suppliers and employees		(8,767,646)	(12,214,055)
Net cash used in operating activities	**22**	**(6,931,938)**	**(10,550,511)**
CASH FLOW FROM INVESTING ACTIVITIES			
Payments for loans to DayaCann	14(c)	(45,518)	(219,908)
Payments for buildings and building improvements	11	(23,301)	(5,158,176)
Payments for assets held for resale	–	(36,000)	
Payments for plant and equipment	11	(9,016)	(145,183)
Net cash received on acquisition of CannPal	13	899,829	–
Proceeds from sale of DayaCann JV	14(c)	527,763	–
Proceeds from transfer of DayaCann loan	14(c)	125,991	–
Net cash from / (used in) investing activities		**1,475,748**	**(5,559,268)**
CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds from issue of shares and exercise of options	18	–	10,500
Repayment of lease liabilities		(29,548)	(42,348)
Net cash used in financing activities		**(29,548)**	**(31,848)**
Net decrease in cash and cash equivalents		(5,485,738)	(16,141,626)
Cash and cash equivalents at the beginning of the financial year		19,165,661	35,307,287
Cash and cash equivalents at the end of the financial year	**6**	**13,679,923**	**19,165,661**

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

Notes to the Financial Statements

Note 1. Significant Accounting Policies

These financial statements and notes represent those of AusCann Group Holdings Ltd ("the Company") and its controlled entities (collectively "the consolidated entity") for the year ended 30 June 2021.

AusCann Group Holdings Ltd is a company limited by shares incorporated and domiciled in Australia.

The financial statements were authorised for issue in accordance with a resolution of directors on 27 August 2021.

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

Basis of Preparation

These general-purpose financial statements have been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*, as appropriate for 'for-profit' oriented entities. The consolidated financial report also complies with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

The financial report is presented in Australian dollars, which is the consolidated entity's functional and presentation currency. The financial statements have been prepared on an accruals basis and are based on historical costs, where applicable, except for the revaluation of financial assets and financial liabilities at fair value through profit or loss, financial assets at fair value through other comprehensive income and certain classes of property, plant and equipment.

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the consolidated entity's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 1(aa).

New or Revised Accounting Standards and Interpretations Adopted

The consolidated entity has adopted all the new or revised Accounting Standards and Interpretations issued by the Australian Accounting Standards Board that are mandatory for the current reporting period. Any new or revised Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the consolidated entity.

New and Revised Accounting Standards and Interpretations on Issue but Not Yet Effective

There are no standards that are not yet effective and that would be expected to have a material impact on the financial results or position of the consolidated entity in the current or future reporting periods and on foreseeable future transactions.

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 the consolidated entity for all the years presented, unless otherwise stated:

a) Revenue

Sale of Goods

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

Interest

Interest revenue is recognised on an accruals basis.

Government Grants

Government grants are recognised when there is reasonable assurance that the grant will be received and all attached conditions will be complied with.

Other Revenue

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

b) Income Tax

The income tax expense or benefit for the year is the tax payable on that year's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to

Notes to the Financial Statements

apply when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

- When the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or
- When the taxable temporary difference is associated with interests in subsidiaries, associates or joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses. The carrying amount of recognised and unrecognised deferred tax assets are reviewed each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entity's which intend to settle simultaneously.

c) 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 Tax Office. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the Statement of Financial Position are shown inclusive of GST.

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

d) Cash and Cash Equivalents

For the purposes of the statements of cash flows, cash includes cash on hand and at call deposits with banks or financial institutions, investments in money market instruments maturing within less than two months, net of bank overdrafts.

e) Other Receivables

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

f) Investment Property

Investment properties are properties held to earn rentals or for capital appreciation, or both, and are accounted for at cost.

g) Property, Plant and Equipment

Land and buildings are shown at fair value, based on periodic, (at least every 3 years), valuations by external independent valuers, less subsequent depreciation and impairment for buildings. The valuations are undertaken more frequently if there is a material change in the fair value relative to the carrying amount. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Increases in the carrying amounts arising on revaluation of land and buildings are credited in other comprehensive income through to the revaluation surplus reserve in equity. Any revaluation decrements are initially taken in other comprehensive income through to the revaluation surplus reserve to the extent of any previous revaluation surplus of the same asset. Thereafter the decrements are taken to profit or loss.

Plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated on a straight-line basis to write off the net cost of each item of plant and equipment over their expected useful lives as follows:

Computer equipment	3 years
Furniture and fittings	3-5 years
Plant & equipment	3-5 years
Buildings	40 years

Notes to the Financial Statements

Note 1. Significant Accounting Policies continued

Accounting Policies continued

g) Property, Plant and Equipment continued

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

h) Intangible Assets

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

Acquired Intellectual Property

The fair value of the Group's acquired intellectual property, which was recognised as part of the business combination of CannPal Animal Therapeutics Pty Ltd ("CannPal") detailed in Note 13, is in relation to the following CannPal products identified within the acquisition by the Group:

i) CannPal's lead nutraceutical product, DermaCann®, which is developed using active ingredients from the hemp plant to target dermatological skin conditions in dogs;

ii) CPAT-01 is CannPal's lead pain and inflammation drug for the large and growing veterinary pain market. It is a liquid, oral veterinary medicine containing standardised THC and CBD extracts in a proprietary ratio to target pain and inflammation in dogs; and

iii) MicroMAX®, which protects sensitive oils from oxidation and enables them to be incorporated into a wide range of end applications.

The Group amortises these intangibles using the straight-line method over 5 to 12 years. This is based on management's assessment of other similar products within the industry and takes into consideration the existing patents with expiry dates between 2039 and 2040, and trademarks with renewal dates between 2029 and 2030.

i) Interests in Joint Ventures

A joint venture is a type of joint arrangement whereby the parties that have joint control have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The consolidated entity's investment in its joint venture, DayaCann, is accounted for using the equity method. Under the equity method, the investment in the joint venture is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the consolidated entity's share of net assets of the joint venture since the acquisition date.

The consolidated entity's share of the joint venture's results is reported in profit or loss.

j) Trade and Other Payables

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether or not billed. 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.

k) Employee Benefits

Provision is made for the consolidated entity's liability for employee benefits arising from services rendered by employees to reporting date. Employee benefits expected to be settled within one year together with entitlements arising from wages and salaries and annual leave which will be settled after one year, have been calculated at undiscounted amounts based on remuneration wage and salary rates that the consolidated entity expects to pay as at each reporting date, including related on-costs.

Other employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those entitlements. Consideration is given to expected future increases in wage and salary rates, including related

Notes to the Financial Statements

on-costs and expected settlement dates based on turnover history.

Contributions are made by the consolidated entity to superannuation funds of each employee's choosing and are charged as expenses when incurred.

l) 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.

m) Impairment of Financial Assets

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

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

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

n) Impairment of Non-Financial Assets

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

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

o) Fair Value Measurement

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

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

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

For recurring and non-recurring fair value measurements, external valuers may be used when internal expertise is either not available or when the valuation is deemed to be significant. External valuers are selected based on market knowledge and reputation.

Where there is a significant change in fair value of an asset or liability from one period to another, an analysis is undertaken, which includes a verification of the major inputs applied in the latest valuation and a comparison, where applicable, with external sources of data.

Notes to the Financial Statements

Note 1. Significant Accounting Policies continued

Accounting Policies continued

p) Share-Based Payments

Equity settled share-based compensation benefits are provided to employees or other suppliers.

Equity settled transactions are awards of shares, or options over shares, that are provided to employees or other suppliers in exchange for the rendering of services or provision of goods.

The cost of equity settled transactions are measured at fair value on grant date. Fair value is independently determined the binomial options pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option, together with non-vesting conditions that do not determine whether the consolidated entity received the services or goods that entitle the employees or other suppliers to receive payment. No account is taken of any other vesting conditions.

The cost of equity settled transactions is recognised as an expense with a corresponding increase in equity over the vesting period. The cumulative charge to profit or loss is calculated based on the grant date fair value of the award, the best estimate of the number of awards that are likely to vest and the expired portion of the vesting period. The amount recognised in profit or loss for the period is the cumulative amount calculated at each reporting date less amounts already recognised in previous periods.

q) Comparatives

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

r) Current and Non-Current Classification

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

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

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

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

s) Principles of Consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of AusCann Group Holdings Ltd ("the Company" or "parent entity") as at 30 June 2021 and the results of its controlled entities for the year then ended. AusCann Group Holdings Ltd and its controlled entities together are referred to in these financial statements as the "consolidated entity".

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

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

The acquisition of subsidiaries is accounted for using the acquisition method of accounting (see Note 1(t)). A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

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

t) Business Combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of assets transferred by the consolidated entity, liabilities incurred by the consolidated entity to the former owners of the acquiree and the equity interest issued by the consolidated entity in exchange for control of the acquiree.

Acquisition-related costs are recognised in profit or loss as incurred. At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with AASB 112 *Income Taxes* and AASB 119 *Employee Benefits* respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the consolidated entity entered into to replace share-based payment arrangements of the acquiree are measured in accordance with AASB 2 *Share-Based Payments* at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with AASB 5 *Non-Current Assets Held for Sale and Discontinued Operations* are measured in accordance with that standard.

Intangible assets acquired in a business combination and recognised separately from goodwill (see Note 1(h)) are recognised initially at their fair value at the acquisition date (which is regarded as their cost). Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Contingent liabilities acquired in a business combination are initially measured at fair value at the acquisition date. At the end of subsequent reporting periods, such contingent liabilities are measured at the higher of the amount that would be recognised in accordance with AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* and the amount recognised initially less cumulative amount of income recognised in accordance with the principles of AASB 15 *Revenue from Contracts with Customers.*

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.

u) Inventories

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

Stock in transit is stated at the lower of cost and net realisable value. Cost comprises of purchase and delivery costs, net of rebates and discounts received or receivable.

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

v) Lease Liabilities

Except for short-term leases and leases of low-value assets, a lease liability is recognised at the commencement date of a lease. The lease liability is initially recognised at the present value of the lease

Notes to the Financial Statements

Note 1. Significant Accounting Policies continued

Accounting Policies continued

v) Lease Liabilities continued

payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the consolidated entity's incremental borrowing rate. Lease payments comprise of fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur, and any anticipated termination penalties. The variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred.

Lease liabilities are measured at amortised cost using the effective interest method. The carrying amounts are remeasured if there is a change in the following: future lease payments arising from a change in an index or a rate used; residual guarantee; lease term; certainty of a purchase option and termination penalties. When a lease liability is remeasured, an adjustment is made to the corresponding right-of use asset, or to profit or loss if the carrying amount of the right-of-use asset is fully written down.

w) Right-of-Use Assets

A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred, and, except where included in the cost of inventories, an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset.

Right-of-use assets are depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. Where the consolidated entity expects to obtain ownership of the leased asset at the end of the lease term, the depreciation is over its estimated useful life. Right-of use assets are subject to impairment or adjusted for any remeasurement of lease liabilities.

The consolidated entity has elected not to recognise a right-of-use asset and corresponding lease liability for short-term leases with terms of 12 months or less and leases of low-value assets. Lease payments on these assets are expensed to profit or loss as incurred.

x) Operating Segments and Segment Reporting

Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the chief operating decision makers. The chief operating decision makers are responsible for the allocation of resources to operating segments and assessing their performance. The chief operating decision makers have been identified as the Board of Directors of AusCann Group Holdings Ltd.

y) Non- Current or Disposal Groups Classified as Held for Resale

Non-current assets and assets of disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continued use. They are measured at the lower of their carrying amount and fair value less costs of disposal. For non-current assets or assets of disposal groups to be classified as held for sale, they must be available for immediate sale in their present condition and their sale must be highly probable.

An impairment loss is recognised for any initial or subsequent write down of the non-current assets and assets of disposal groups to fair value less costs of disposal. A gain is recognised for any subsequent increases in fair value less costs of disposal of a non-current assets and assets of disposal groups, but not in excess of any cumulative impairment loss previously recognised.

Non-current assets are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of assets held for sale continue to be recognised.

Non-current assets classified as held for sale and the assets of disposal groups classified as held for sale are presented separately on the face of the statement of financial position, in current assets. The liabilities of disposal groups classified as held for sale are presented separately on the face of the statement of financial position, in current liabilities.

Notes to the Financial Statements

z) Discontinued Operations

A discontinued operation is a component of the consolidated entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately on the face of the statement of profit or loss and other comprehensive income.

aa) Critical Accounting Estimates and Judgements

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

Share-based payments

The consolidated entity measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using a binomial model, taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amount of assets and liabilities with the next annual reporting period, but may impact on profit or loss and equity.

Impairment of non-financial assets

The consolidated entity assesses impairment of non-financial assets at each reporting date by evaluating conditions specific to the consolidated entity and to the particular asset that may lead to impairment. If an impairment trigger exists, the recoverable amount of the asset is determined. This involves value-in-use calculations, which incorporate key estimates and assumptions.

Estimation of useful lives of assets

The consolidated entity determines the estimated useful lives and related depreciation and amortisation charges for its plant and equipment. The useful lives could change significantly due to technical innovation or some other unforeseen event.

Employee benefits provision

The liability for employee benefits expected to be settled more than 12 months from the reporting date are recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees at the reporting date. In determining the present value of the liability, estimates of attrition rates and pay increases through promotion and inflation have been taken into account.

Allowance for expected credit losses

The allowance for expected credit losses assessment requires a degree of estimation and judgement. It is based on the lifetime expected credit loss, grouped based on days overdue, and makes assumptions to allocate an overall expected credit loss rate for each group. These assumptions include recent sales experience and historical collection rates.

Fair value measurement hierarchy

The consolidated entity is required to classify all assets and liabilities, measured 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; and Level 3: Unobservable inputs for the asset or liability. Considerable judgement is required to determine what is significant to fair value and therefore which category the asset or liability is placed in can be subjective.

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.

Income tax

The consolidated entity is subject to income taxes in the jurisdictions in which it operates. Significant judgement is required in determining the provision for income tax. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The consolidated entity recognises liabilities for anticipated tax audit issues based on the consolidated entity's current understanding of the tax law. Where the final tax outcome of these matters is

Note 1. Significant Accounting Policies continued

Accounting Policies continued

aa) Critical Accounting Estimates and Judgements continued

different from the carrying amounts, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

Recovery of deferred tax assets

Deferred tax assets are recognised for deductible temporary differences only if the consolidated entity considers it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Coronavirus (COVID-19) pandemic

Judgement has been exercised in considering the impacts that the Coronavirus (COVID-19) pandemic has had, or may have, on the consolidated entity based on known information. This consideration extends to the nature of the products and services offered, customers, supply chain, staffing and geographic regions in which the consolidated entity operates. Other than as addressed in specific notes, there does not currently appear to be either any significant impact upon the financial statements or any significant uncertainties with respect to events or conditions which may impact the consolidated entity unfavourably as at the reporting date or subsequently as a result of the Coronavirus (COVID-19) pandemic.

Provision for impairment of inventories

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.

Lease term

The lease term is a significant component in the measurement of both the right-of-use asset and lease liability. Judgement is exercised in determining whether there is reasonable certainty that an option to extend the lease or purchase the underlying asset will be exercised, or an option to terminate the lease will not be exercised, when ascertaining the periods to be included in the lease term. In determining the lease term, all facts and circumstances that create an economical incentive to exercise an extension option, or not to exercise a termination option, are considered at the lease commencement date. Factors considered may include the importance of the asset to the consolidated entity's operations; comparison of terms and conditions to prevailing market rates; incurrence of significant penalties; existence of significant leasehold improvements; and the costs and disruption to replace the asset. The consolidated entity reassesses whether it is reasonably certain to exercise an extension option, or not exercise a termination option, if there is a significant event or significant change in circumstances.

Incremental borrowing rate

Where the interest rate implicit in a lease cannot be readily determined, an incremental borrowing rate is estimated to discount future lease payments to measure the present value of the lease liability at the lease commencement date. Such a rate is based on what the consolidated entity estimates it would have to pay a third party to borrow the funds necessary to obtain an asset of a similar value to the right-of-use asset, with similar terms, security and economic environment.

Deferred consideration

The deferred consideration asset is the difference between the total sale consideration, usually on sale of an investment or a financial asset, and the amounts received up to the reporting date, discounted to net present value. The consolidated entity applies provisional accounting for the sale of its investments or financial assets. Any reassessment of the receivable during the earlier of the finalisation of the provisional accounting or 12 months from sale date is adjusted for retrospectively. Thereafter, at each reporting date, the deferred consideration asset is reassessed against revised estimates and any increase or decrease in the net present value of the asset will result in a corresponding gain or loss to profit or loss. The decrease in the asset resulting from the passage of time is recognised as a finance cost.

Notes to the Financial Statements

Note 2. Other Income and Expenses

	2021 $	2020 $
Government Grants		
Research and development grant incentive	1,561,518	1,207,175
Export market development grant	83,085	–
Government cashflow boost	–	100,000
WA payroll tax grant	17,500	17,500
	1,662,103	**1,324,675**
Expenses		
Total expenses include the following specific expenses:		
i) Employee benefits		
Employee benefits expense	2,433,018	2,658,952
Share-based payment expense – employees (refer Note 20)	212,511	41,885
	2,645,529	**2,700,837**
ii) Consulting Fees		
Consulting fees	422,279	555,942
	422,279	**555,942**
iii) Research and Development (Direct Costs)		
Raw materials	521,799	787,622
Contract manufacturing R&D	547,252	465,385
Consultants – R&D	483,878	318,073
Analytics	621,932	494,666
Site costs	103,380	633,130
Pharmaceutical development	613,716	–
Other	55,969	8,259
	2,947,926	**2,707,134**
iv) Depreciation and Amortisation		
Right-of-use asset	26,574	37,698
Property, plant and equipment (Note 11)	204,881	57,078
Intangible assets (Note 12)	454,339	–
	685,794	**94,776**
v) Other Expenses		
Occupancy expenses	29,478	40,009
Legal expenses	72,246	110,335
Travel and accommodation	31,075	101,746
Licenses and permits	98,964	99,334
Marketing	34,504	78,226
Other	227,238	302,535
	493,505	**732,184**

Notes to the Financial Statements

Note 3. Income Tax Expense

	2021 $	2020 $
Reconciliation Between Tax Expense and Pre-Tax Profit		
Loss from continuing operations before tax	(10,575,645)	(6,856,305)
Profit/(Loss) from discontinued operations before tax	1,934,254	(219,908)
Total loss before tax	**(8,641,391)**	**(7,076,213)**
Income tax benefit calculated at 26% (2020: 27.5%)	(2,246,762)	(1,945,959)
Adjusted for:		
Research and development tax incentive not taxable	(405,995)	(364,286)
Non-assessable gain on sale of DayaCann investment and transfer of loan	(514,741)	–
Other non-deductible expenses	90,234	124,317
Impact of reduction of future corporate tax rate	159,264	515,491
Tax losses and other deferred tax balances not recognised	2,918,000	1,670,437
Income tax expense	–	–

Deferred tax assets and liabilities have not been recognised in respect of the following:

	2021 $	2020 $
Deferred tax assets		
Business-related costs	587,730	589,445
Accrued expenses and payables	47,317	79,423
Provision for stock obsolescence	648,354	–
Impairment of loan in DayaCann	–	54,977
Fixed and intangible assets	215,185	–
Carry-forward revenue tax losses	7,720,440	5,024,307
Deferred tax assets not recognised	(9,219,026)	(5,748,152)
	–	–
Deferred tax liabilities		
Accrued income	22,310	17,343
Prepayments	88,801	60,405
Deferred tax liabilities not recognised	(111,111)	(77,748)
	–	–

The tax benefits of the above deferred tax assets will only be obtained if:

a) The consolidated entity derives future assessable income of a nature and of an amount sufficient to enable the benefits to be utilised;

b) The consolidated entity continues to comply with the conditions for deductibility imposed by law; and

c) No changes in income tax legislation adversely affect the consolidated entity in utilising the benefits.

Notes to the Financial Statements

The consolidated entity chose to form a tax consolidated group as at 1 July 2017, as a result tax loss have been consolidated and tested for future carry forward amounts available. Upon acquisition, CannPal joined the tax consolidated group as at 18 March 2021.

As at 30 June 2021, carry forward tax losses arising in Australia of $30,881,758 (2020: $17,488,696) are available indefinitely for offset against future taxable profits, subject to meeting eligibility criteria within the *Income Tax Assessment Act 1997*. Net deferred tax assets (net of deferred tax liabilities) have not been brought to account as it is not probable within the immediate future that taxable profits will be available against which the deferred tax assets could be recognised.

Change in Corporate Tax Rate

There has been a legislated change in the corporate tax rate that will apply to future income years. The impact of this reduction in the corporate tax rate has been reflected in the unrecognised deferred tax positions and the prima face income tax reconciliation above.

Note 4. Earnings Per Share

	2021 cents	2020 cents
Basic and Diluted Loss per Share (in Cents)		
From continuing operations	(3.00)	(2.16)
From discontinued operations	0.55	(0.07)
Total basic and diluted loss per share	**(2.45)**	**(2.23)**

The earnings and weighted average number of ordinary shares used in the calculation of the basic and diluted earnings per share are as follows:

	2021 $	2020 $
Reconciliation of Loss Used in Calculating Loss per Share		
Loss attributable to ordinary equity holders of the parent		
From continuing operations	(10,575,645)	(6,856,305)
From discontinued operations	1,934,254	(219,908)
Net loss for the year	**(8,641,391)**	**7,076,213**

	2021 number	2020 number
Weighted average number of ordinary shares used in the calculation of basic and diluted earnings per share	352,236,328	317,044,352

No securities are currently classified as dilutive potential ordinary shares. All options and performance rights on issue are anti-dilutive since their inclusion would reduce the loss per share.

Notes to the Financial Statements

Note 5. Segment Disclosures

During the year, the consolidated entity operated in one business segment, being the research and development of medicinal cannabis. This activity was established in both Australia and in Chile (via the consolidated entity's joint venture with DayaCann) until the divestment of the consolidated entity's interest in the joint venture on 22 March 2021.

Based on the above the Board of Directors of AusCann Group Holdings Ltd (chief operating decision makers) have identified two main reportable segments of the consolidated entity's business:

- research and development of medicinal cannabis (based in Australia); and
- research and development of medicinal cannabis in Chile, which has been disclosed as part of discontinued operations.

This focus is consistent with the internal reports that are reviewed and used by the Board of Directors of AusCann Group Holdings Ltd (chief operating decision makers) in assessing performance and determining the allocation of resources.

2021

Consolidated	Corporate $	Medicinal Cannabis Research and Development $	Discontinued Operations $	Total $
Revenue				
Sales	–	84,495	–	**84,495**
Less: Cost of goods sold	–	(69,929)	–	**(69,929)**
Net sales income from external customers	**–**	***14,566***	**–**	***14,566***
Government grants	–	1,662,103	–	**1,662,103**
Gain on disposal of right of use asset & liability	–	8,804	–	**8,804**
Rental income	–	71,250	–	**71,250**
Interest received	76,394	536	–	**76,930**
Gain on sale of DayaCann investment after income tax	–	–	523,003	**523,003**
Gain on transfer of DayaCann loan after income tax	–	–	1,456,769	**1,456,769**
Total Revenue	**76,394**	**1,757,259**	**1,979,772**	**3,813,425**
Expenses				
Employee benefits expense	–	2,433,018	–	**2,433,018**
Share based payment expense – employees	212,511	–	–	**212,511**
Consulting fees	–	422,279	–	**422,279**
Merger and acquisition costs	1,172,798	–	–	**1,172,798**
Research and development (direct expenses)	–	2,947,926	–	**2,947,926**
Joint venture expenses – impairment of loan in Dayacann	–	–	45,518	**45,518**
Depreciation and amortisation	16,400	669,394	–	**685,794**
Impairment of inventories	–	2,593,417	–	**2,593,417**
Corporate, administration and other expenses	427,163	1,514,393	–	**1,941,555**

Notes to the Financial Statements

Consolidated	Corporate $	Medicinal Cannabis Research and Development $	Discontinued Operations $	Total $
Total Expenses	**1,828,871**	**10,580,427**	**45,518**	**12,454,816**
Loss Before Income Tax	**(1,752,477)**	**(8,823,168)**	**1,934,254**	**(8,641,391)**
Income tax (expense)	–	–	–	–
Loss After Income Tax	**(1,752,477)**	**(8,823,168)**	**1,934,254**	**(8,641,391)**
Assets				
Segment assets	12,303,563	31,489,780	1,326,018	**45,119,361**
Total Assets	**12,303,563**	**31,489,780**	**1,326,018**	**45,119,361**
Liabilities				
Segment liabilities	9,204	682,461	–	**691,665**
Total Liabilities	**9,204**	**682,461**	**–**	**691,665**

2020

Consolidated	Corporate $	Medicinal Cannabis Research and Development $	Discontinued Operations $	Total $
Revenue				
Sales	–	3,204	–	**3,204**
Less: Cost of goods sold	–	(2,197)	–	**(2,197)**
Net sales income from external customers	**–**	***1,007***	**–**	***1,007***
Government grants	–	1,324,675	–	**1,324,675**
Interest received	374,607	10,721	–	**385,328**
Total Revenue	**374,607**	**1,336,403**	**–**	**1,711,010**
Expenses				
Employee benefits expense	–	2,658,952	–	**2,658,952**
Share based payment expense – employees	41,885	–	–	**41,885**
Consulting fees	–	555,942	–	**555,942**
Research and development (direct expenses)	–	2,707,134	–	**2,707,134**
Joint venture expenses – impairment of loan in Dayacann	–	–	219,908	**219,908**
Depreciation and amortisation	24,760	70,016	–	**94,776**
Impairment of asset held for resale	–	406,400	–	**406,400**
Corporate, administration and other expenses	310,283	1,791,943	–	**2,102,226**

Notes to the Financial Statements

Note 5. Segment Disclosures continued

Consolidated	Corporate $	Medicinal Cannabis Research and Development $	Discontinued Operations $	Total $
Total Expenses	**376,928**	**8,190,387**	**219,908**	**8,787,223**
Loss Before Income Tax	**(2,321)**	**(6,853,984)**	**(219,908)**	**(7,076,213)**
Income tax (expense)	–	–	–	–
Loss After Income Tax	**(2,321)**	**(6,853,984)**	**(219,908)**	**(7,076,213)**
Assets				
Segment assets	18,309,639	17,155,548	–	**35,465,187**
Total Assets	**18,309,639**	**17,155,548**	**–**	**35,465,187**
Liabilities				
Segment liabilities	52,044	777,171	–	**829,215**
Total Liabilities	**52,044**	**777,171**	**–**	**829,215**

Note 6. Cash and Cash Equivalents

	2021 $	2020 $
Cash at bank and in hand	13,679,923	19,165,661
	13,679,923	**19,165,661**

Note 7. Inventories

	2021 $	2020 $
Raw materials	2,774,058	3,214,477
Work in progress	2,665	390,466
Finished goods	29,592	2,628
Less: Provision for stock obsolescence (a)	(2,593,417)	–
	212,898	**3,607,571**

a) Provision for Stock Obsolescence

The non-cash impairment of inventories during the year of $2,593,417 relates to a write down on the value of resin raw materials due to changes in the wholesale cost of cannabinoid resins resulting from downward pressure on API prices with increased competition in global markets. This has reduced the retail floor price of medical cannabis products reducing the net realisable value of the resins. This provision will be reassessed as the group progresses with its research, development and commercialisation plans.

Note 8. Assets Held for Resale

	2021 $	2020 $
Plant and equipment held for resale	–	400,000
	–	**400,000**

This asset relates to plant and equipment that the Company initially acquired for use in relation to an activity that the Company scaled down and was classified as being available-for-sale during the year ended 30 June 2020. The asset remained available-for-sale until the Company leased its Western Australian research and development facility to Source Certain International ("SCI") on 17 June 2021 (see Note 10).

As the asset is located within the facility leased out to SCI, the asset has been reclassified as plant and equipment at 30 June 2021 (see Note 11).

Note 9. Right-Of-Use Asset and Lease Liabilities

	2021 $	2020 $
Right-of-Use Asset		
Land and buildings – right-of-use	92,697	122,520
Less: Accumulated depreciation	(7,725)	(37,698)
	84,972	84,822
Changes to the Right-of-Use Asset Carrying Amount		
Carrying amount at 1 July	84,822	–
Right-of-use asset recognised at 1 July 2019 (upon adoption of AASB 16)	–	122,520
Disposal of right-of-use asset upon cessation of lease	(65,973)	–
Right-of-use asset recognised upon signing of new lease	92,697	–
Depreciation of right-of-use asset	(26,574)	(37,698)
Carrying amount at 30 June	84,972	84,822
Lease Liabilities		
Current lease liabilities	45,433	39,884
Non-current lease liabilities	39,871	54,433
	85,304	94,317
Changes to the Lease Liabilities Carrying Amount		
Carrying amount at 1 July	94,317	–
Lease liabilities recognised at 1 July 2019 (upon adoption of AASB 16)	–	131,068
Disposal of lease liability	(74,778)	–
Lease liability recognised upon signing of new lease	92,698	–
Interest on unwinding of lease liabilities	2,615	5,597
Repayment of lease liabilities	(29,548)	(42,348)
Carrying amount at 30 June	85,304	94,317

Notes to the Financial Statements

Note 9. Right-Of-Use Asset and Lease Liabilities continued

The Company previously leased land and buildings for its office under a five-year agreement. On 22 December 2020 the Company agreed with the owner of the property to cease the lease and pay a break fee of $12,747.

On 22 April 2021, the Company's subsidiary, CannPal, entered into a lease for 2 years. The right-of-use asset and the lease liability relating to this lease has been recognised and reflected in the right-of-use asset and lease liability balances at 30 June 2021.

On renewal of the consolidated entity's leases, the terms of the leases are renegotiated. The consolidated entity also leases car parking spaces, but this lease is either short-term or low-value, so has been expensed as incurred and not capitalised as right-of-use assets.

Note 10. Investment Property

On 17 June 2021, the Company entered into an agreement to lease the Company's research and development facility in Wangara, Western Australia to Source Certain International ("SCI").

The key terms of the agreement between the Company and SCI are as follows:

- *Term of lease:* 5 years plus two extension options of 5 years and 5 years;
- *Permitted use:* Laboratory, chemistry, development, manufacture, supply and cultivation;
- *Rent:* $475,000 p.a. ex GST (subject to CPI increases and rent reviews);
- *Incentive:* First 6 months' rent free;
- *Outgoings:* SCI responsible for operating expenses related to the facility;
- *Right of first refusal:* SCI has first right to purchase the facility if AusCann proposes to sell; and
- *Service agreement:* AusCann has the right to negotiate a service level agreement allowing for SCI to provide AusCann with research and analytical services in the research and development facility.

Rental income of $71,250 is shown within revenue for the year ended 30 June 2021, with the amount representing straight-line amortisation of the rental income to be received by the Company over the next 5 years, taking the 6-month lease incentive into account.

The risks associated with rights the Company retains in underlying assets are not considered to be significant.

The investment property has been valued at cost, based on the amount which was previously classified as land and buildings which was part of the Company's property, plant and equipment (see Note 11).

	2021 $	2020 $
Amounts Recorded at Cost		
Investment property	11,265,237	–
Less: Accumulated depreciation	(153,798)	–
	11,111,439	–
Changes to the Carrying Amounts		
Carrying amount at 1 July	–	–
Reclassification from land, buildings and building improvements at cost (see Note 11)	11,111,439	–
Carrying amount at 30 June	11,111,439	–
Future Minimum Lease Payments Due from Tenant		
Within 1 year	316,667	–
1 to 2 years	475,000	–
2 to 3 years	475,000	–
3 to 4 years	475,000	–
4 to 5 years	395,833	–
	2,137,500	–

Note 11. Property, Plant and Equipment

	2021 $	2020 $
Land and buildings at cost	–	5,541,328
Building improvements at cost	–	4,982,341
Capital works in progress	–	718,267
Less: Amortisation	–	–
	–	11,241,936
Computer equipment at cost	40,328	38,467
Less: Accumulated depreciation	(31,709)	(25,566)
	8,619	12,901
Furniture and fittings at cost	90,087	87,360
Less: Accumulated depreciation	(67,221)	(57,152)
	22,866	30,208
Plant and equipment at cost	916,554	512,126
Less: Accumulated depreciation	(93,978)	(59,107)
	822,576	453,019
Total	**854,061**	**11,738,064**

Notes to the Financial Statements

Note 11. Property, Plant and Equipment Continued

Reconciliations

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

Consolidated	Land, Buildings and Building Improvements	Computer Equipment	Furniture and Fittings	Plant and Equipment	Total
Balance at 1 July 2019	**6,014,812**	**20,337**	**47,554**	**1,110,532**	**7,193,235**
Additions	5,227,124	–	–	182,739	5,409,863
Transfer	–	–	–	(806,400)	(806,400)
Disposals	–	–	(1,556)	–	(1,556)
Depreciation expense	–	(7,436)	(15,790)	(33,852)	(57,078)
Balance at 30 June 2020	**11,241,936**	**12,901**	**30,208**	**453,019**	**11,738,064**
Additions	23,301	1,861	2,727	4,428	32,317
Disposals	–	–	–	–	–
Depreciation expense	(153,798)	(6,143)	(10,069)	(34,871)	(204,881)
Reclassification as investment property (see Note 10)	(11,111,439)	–	–	–	(11,111,439)
Reclassification as plant and equipment (see Note 8)	–	–	–	400,000	400,000
Balance at 30 June 2021	**–**	**8,619**	**22,866**	**822,576**	**854,061**

Note 12. Intangible Assets

	2021 $	2020 $
Acquired intellectual property (see Note 13)	17,492,283	-
Less: Accumulated amortisation	(454,339)	-
	17,037,944	**-**

The fair value of the Group's acquired intellectual property, which was recognised as part of the business combination of CannPal Animal Therapeutics Pty Ltd ("CannPal") detailed in Note 13, is in relation to the following CannPal products, identified within the acquisition by the Group:

- **CPAT-01:** CPAT-01 is a liquid, oral veterinary medicine containing standardized THC and CBD whole plant extracts in a proprietary ratio to target pain and inflammation in dogs. CPAT-01 is in Phase II, with CannPal having completed research in over 100 dogs, including a successful randomised, double-blind, placebo controlled clinical trial in 46 client owned dogs with osteoarthritis. This was complemented by the establishment of an Investigational New Animal Drug file (INAD) with the FDA-CVM for this key drug candidate;
- **DermaCann®:** is a CBD-derived nutraceutical in development for healthy skin and immune function in dogs with dermatological conditions. The product is a liquid oral oil formulation containing CBD in a patented combination with other bioactive lipids designed to target inflammation and immune modulation pathways. CannPal has

completed a successful clinical study for DermaCann in a cohort of dogs with Atopic Dermatitis along with a significant number of in-vitro and in-vitro toxicological studies on the key active ingredient, cannabidiol. The results of this research, alongside other generated data, will be used to support the registration and commercialisation of DermaCann as a veterinary medicine in a number of key markets.

- **MicroMax®**: In June 2018, CannPal entered into an agreement with the Commonwealth Scientific and Industrial Research Organisation (CSIRO) under the CSIRO's Kick-Start initiative, to research the use of patented microencapsulation technologies for enhancing the delivery of cannabis-based animal health products. During the financial year ended 30 June 2020, CannPal was granted the global exclusive rights to commercialise patented MicroMAX® encapsulation technology by CSIRO for use in the field of Animal Therapeutics.

The Group's management believe that these provide future economic benefits to the consolidated group and meet the separate recognition criteria within AASB 138 Intangibles, when combined with potential synergies generated from the transaction.

Further details of the valuation techniques and key assumptions approved by management of the Group is disclosed in Note 24.

The Group amortises these intangibles using the straight-line method over 5 to 12 years. This is based on management's assessment of other similar products within the industry and takes into consideration the existing patents with expiry dates between 2039 and 2040, and trademarks with renewal dates between 2029 and 2030.

Note 13. Business Combinations

On 18 March 2021, AusCann Group Holdings Ltd ("AusCann") acquired 100% of CannPal Animal Therapeutics Limited ("CannPal") via a scheme of arrangement ("Scheme") which was implemented on the same day.

Under the Scheme:

- CannPal shareholders received 1.3 AusCann shares for each CannPal share held at 7.00pm (AEDT) on 15 March 2021. As part of the Scheme, all CannPal shares were transferred to AusCann and CannPal became a wholly owned subsidiary of AusCann on 18 March 2021. A total of 123,499,753 AusCann shares were issued to the CannPal shareholders as part of the Scheme; and
- All CannPal options were cancelled and CannPal option holders were issued with the following AusCann options at a conversion rate of 1.3 AusCann options per each CannPal option:
  - 9,425,000 unlisted options exercisable at $0.1538 and expiring on 24 March 2022 (issued to an advisor);
  - 325,000 unlisted options exercisable at $0.1538 and expiring on 9 November 2022 (issued to Dr Margaret Curtis, one of the Company's key management personnel); and
  - 650,000 unlisted options exercisable at $0.1538 and expiring on 31 December 2024 (also issued to Dr Margaret Curtis);

  resulting in a total of 10,400,000 unlisted AusCann options issued to CannPal option holders as part of the Scheme.

CannPal is an Australian company established in 2016 as a pharmaceutical-focused animal health company researching the benefits of medical cannabis for companion animals. It was listed on the ASX in 2017 and delisted from the ASX as at the date of the Scheme on 18 March 2021.

For the purposes of these financial statements, the results of CannPal have been included from 18 March 2021 when control effectively passed, with:

- the consideration issued in respect to the 123,499,753 AusCann shares valued at the closing price on 18 March 2021 of 14.5 cents each (total market value of $17,907,464, see Note 20(a)(i));

Note 13. Business Combinations continued

- the consideration issued in respect to the 9,425,000 unlisted options exercisable at $0.1538 and expiring on 24 March 2022 valued at $0.04774 each using a Black-Scholes model (total market value of $449,946, see Note 20(a)(ii));
- the consideration issued in respect to the 325,000 unlisted options exercisable at $0.1538 and expiring on 9 November 2022 valued at $0.05914 each using a Black-Scholes model (total market value of $19,221, see Note 20(a)(iii)); and
- the consideration issued in respect to the 650,000 unlisted options exercisable at $0.1538 and expiring on 31 December 2024 valued at $0.05914 each using a Black-Scholes model (total market value of $54,882, see Note 20(a)(iii)).

Details of the purchase consideration, the net assets acquired (including acquired intellectual property, see Note 12 for additional details) are as follows:

- This business combination has been accounted for on a provisional basis, as this has occurred within the 12 months ended 30 June 2021; and
- The assets and liabilities recognised as a result of the acquisition are as follows:

	Fair Value $
Purchase Consideration	
AusCann Shares Issued	
123,499,753 fully paid ordinary shares valued at $0.145 each (Note 20(a)(i))	17,907,464
AusCann Unlisted Options Issued	
9,425,000 unlisted options exercisable at $0.1538 and expiring on 24 March 2022 valued at $0.04774 each (Note 20(a)(ii))	449,946
325,000 unlisted options exercisable at $0.1538 and expiring on 9 November 2022 valued at $0.05914 each (Note 20(a)(iii))	19,221
650,000 unlisted options exercisable at $0.1538 and expiring on 31 December 2024 valued at $0.08443 each (Note 20(a)(iii))	54,882
	524,049
Fair Value of Purchase Consideration	**18,431,513**
Net Assets Acquired	
Cash and cash equivalents	899,829
Other current assets	31,024
Acquired intellectual property (refer Note 12)	17,492,283
Trade and other payables	(157,592)
Employee entitlements	(44,940)
Fair Value of Assets and Liabilities Acquired	**18,220,604**
Add: Transaction costs associated with acquisition	210,909
Fair Value of Net Assets Acquired	**18,431,513**

Notes to the Financial Statements

	Fair Value $
Satisfied by:	
Fair value of fully paid ordinary shares issued under Scheme	17,907,464
Fair value of options issued under Scheme	524,049
	18,431,513
Net Cash Inflow Arising on Acquisition:	
Cash balances acquired from CannPal	899,829
Less: Cash paid	Nil
Net Inflow of Cash – Investing Activities	**899,829**

Revenue and Profit Contribution

The acquired business contributed revenues of $86,530 and net loss of $764,535 to the consolidated entity for the period from 18 March 2021 to 30 June 2021.

Note 14. Interest in Joint Venture and Discontinued Operations

The consolidated entity had a 50% interest in DayaCann which was a for-profit joint venture established to grow medicinal cannabis in Chile. As the entity was a jointly controlled entity it was treated as a joint venture under AASB 11 *Joint Arrangements*, with the consolidated entity's investment in DayaCann accounted for using the equity method in the consolidated financial statements.

On 10 November 2020, AusCann announced an agreement with GrowForChile SpA ("GFC") and Telor International Limited ("Telor") in respect to the sale of the consolidated entity's 50% owned Chilean joint venture, DayaCann SpA ("DayaCann"). On 22 March 2021, AusCann announced it had finalised the sale of the Company's right, title and interest in DayaCann, and the transfer of the Company's loan.

An amount of USD $200,000 was received on signing in December 2020. A further payment of USD $200,000 was received in March 2021. These were in consideration for AusCann's 50% interest in DayaCann shares.

An amount of USD $100,000 was received in February 2021 towards the transfer of the loan.

AusCann expects to receive further receipts totalling USD $1,000,000 towards the transfer of the loan over the next two years (USD $500,000 by 28 October 2021 and USD $500,000 by 28 October 2022). These receivable amounts have been disclosed as deferred considerations (see Note 14(f) below).

The consolidated entity's interest in the joint venture up to 22 March 2021 has been reported in the current period as a discontinued operation. Financial information relating to the discontinued operation for the period to the date of disposal is set out below:

Notes to the Financial Statements

Note 14. Interest in Joint Venture and Discontinued Operations continued

	1 Jul 2020 to 22 Mar 2021 $	1 Jul 2019 to 30 Jun 2020 $
a) Financial Performance Information		
Joint Venture Profit and Loss		
Other income	–	29,959
Administration costs	(138,869)	(335,400)
Interest expense	(29,632)	(67,520)
Impairment of inventory	–	(40,238)
Tax expense	–	–
Foreign exchange difference	263,524	(325,035)
Profit/(Loss) for the period	95,023	(738,234)
AusCann's 50% share of DayaCann's profit/(loss) for the period	47,512	(369,117)
AusCann's 50% share of DayaCann profit/loss recognised in Auscann group, including foreign currency translation (i)	–	–
Impairment of loan to Dayacann (ii)	(45,518)	(219,908)
Gain on sale of the joint venture after income tax (see Note 14l)	523,003	–
Gain on transfer of the loan to DayaCann after income tax (see Note 14(f))	1,456,769	–
Profit/(Loss) after Income Tax Expense from Discontinued Operations	**1,934,254**	**(219,908)**

i) The loss recognised in the consolidated entity from its share of the joint venture operations during the financial periods were limited to the investment amount. As the investment balance in DayaCann was reduced to $nil at 22 March 2021, the amount of $47,512 relating to the consolidated entity's share of profit and movement in reserves in DayaCann (2020: share of loss of $369,117) was not recognised in the consolidated entity.

ii) During the period the consolidated entity advanced a total of $45,518 (2020: $219,908) to DayaCann, The amounts advanced were further impaired during the period.

	30 Jun 2021 $	30 Jun 2020 $
b) Financial Position Information		
Cash and cash equivalents	–	9,688
Inventories	–	1,367,084
Less: Impairment of inventories	–	(1,367,084)
Other current assets	–	
Property, plant and equipment	–	92,895
Trade and other payables	–	(1,959,890)
Provisions for employee benefits	–	(6,343)
Net Liabilities / Equity	–	(1,863,650)
AusCann's 50% share of DayaCann's net liabilities	–	(931,825)

Notes to the Financial Statements

	30 Jun 2021 $	30 Jun 2020 $
AusCann's share of DayaCann net liabilities recognised in Auscann group, including foreign currency translation (see Note 14(a)(i))	**–**	**–**
Assets and Liabilities of the Discontinued Operation		
AusCann's carrying amount of investment in DayaCann (see above and Note 14 (a)(i))	–	–
Deferred consideration receivable within 1 year (i)	664,202	–
Deferred consideration receivable within 2 years (i)	661,816	–
	1,326,018	**–**

i) The deferred consideration amounts above relates to amounts receivable for the transfer of the DayaCann loan to the purchasers of the DayaCann joint venture, GFC and Telor. The remaining amount receivable from GFC and Telor is USD $1,000,000, of which USD $500,000 is receivable by 28 October 2021 and USD $500,000 is receivable by 28 October 2022.

	1 Jul 2020 to 22 Mar 2021 $	1 Jul 2019 to 30 Jun 2020 $
c) Cash Flow Information		
Payments for loans to DayaCann	(45,518)	(219,908)
Proceeds from sale of DayaCann joint venture	527,763	–
Proceeds from transfer of DayaCann loan	125,991	–
Net cash generated from / (used in) investing activities	608,236	(219,908)
Net increase/(decrease) in cash and cash equivalents from discontinued operations	**608,236**	**(219,908)**

Reconciliation of Profit/(Loss) After Tax from Discontinued Operations to Net Cash Used in Operating Activities of Discontinued Operations

	2021 $	2020 $
Profit/(Loss) after income tax expense from discontinued operations	1,934,254	(219,908)
Adjusted for:		
Impairment of loan to DayaCann	45,518	219,908
Gain on sale of DayaCann joint venture after income tax	(523,003)	–
Gain on transfer of DayaCann loan after income tax	(1,456,769)	–
	–	**–**

Notes to the Financial Statements

Note 14. Interest in Joint Venture and Discontinued Operations continued

	22 Mar 2021 $	30 Jun 2020 $
d) Carrying Amounts of Assets and Liabilities Disposed		
Cash and cash equivalents	7,634	–
Other current assets	556	–
Property, plant and equipment	92,107	–
Total Assets	100,297	–
Trade and other payables	1,917,259	–
Provisions for employee benefits	6,921	–
Total Liabilities	1,924,180	–
Net Liabilities / Equity	(1,823,883)	–
AusCann's 50% share of DayaCann's net liabilities at date of disposal	(911,941)	–
Carrying amount of the investment in DayaCann disposed	–	**–**

	22 Mar 2021 $
e) Details of the Disposal of Joint Venture Investment	
Total sale consideration	523,003
Carrying amount of net assets disposed	–
Derecognition of foreign currency reserve	–
Disposal costs	–
Gain on disposal of DayaCann joint venture before income tax	**523,003**
Less: Income tax expense on gain on disposal	–
Gain on disposal DayaCann joint venture after income tax	**523,003**

Notes to the Financial Statements

	30 Jun 2021 $
f) Details of the Transfer of Joint Venture Loan	
Amounts received to date	130,751
Deferred consideration receivable within 1 year (Note 14(b))	664,202
Deferred consideration receivable within 2 years (Note 14(b))	661,816
Total transfer consideration	**1,456,769**
Carrying amount of net loan transferred	–
Derecognition of foreign currency reserve	–
Disposal costs	–
Gain on transfer of DayaCann loan before income tax	**1,456,769**
Less: Income tax expense on gain on disposal	–
Gain on transfer of DayaCann loan after income tax	**1,456,769**

Note 15. Other Assets

	2021 $	2020 $
Current		
Accounts receivable	41,821	1,334
Accrued income	71,251	51,870
GST receivable	163,663	6,568
Accrued interest	17,989	17,500
Prepayments	215,841	241,618
Loan to DayaCann (i)	–	1,567,201
Less: Impairment of loan to DayaCann (i)	–	(1,567,201)
Deferred consideration receivable within 1 year (i)	664,202	–
Short term deposits	162,178	150,179
	1,336,945	469,069
Non–Current		
Prepayments	139,363	–
Deferred consideration receivable within 2 years (i)	661,816	–
	801,179	–
	2,138,124	469,069

i) The loan to DayaCann, which was fully impaired in prior financial periods, was transferred to GFC and Telor as part of the sale of the DayaCann joint venture. The amount agreed as consideration for the transfer of the loan was USD $1,100,000, of which USD $100,000 was received on 22 March 2021 as part of the first instalment of the sale of the joint venture.

The remaining USD $1,000,000 is receivable over the next two years; USD $500,000 by 28 October 2021 and USD $500,000 by 28 October 2022. The amounts receivable have been disclosed as deferred considerations, as shown above. Further details on the sale of the DayaCann joint venture and the transfer of the loan is disclosed in Note 14.

Notes to the Financial Statements

Note 16. Trade and Other Payables

	2021 $	2020 $
Trade payables and accrued expenses	366,391	496,769
PAYG and superannuation payable	100,704	98,362
	467,095	595,131

Due to the short-term nature of these payables, their carrying value is assumed to approximate their fair value.

Note 17. Employee Entitlements

	2021 $	2020 $
Current		
Provision for annual leave	139,266	139,767

Note 18. Issued Capital

	2021 $	2020 $	2021 Number of Shares	2020 Number of Shares
Ordinary shares – fully paid, net of costs	93,165,187	75,468,632	440,547,110	317,047,357
	93,165,187	75,468,632		

Movements in Ordinary Share Capital

	Date	Number	$
Opening balance	30 June 2019	316,997,357	75,452,467
Exercise of 50,000 share options at $0.2100	23 July 2019	50,000	10,500
Transfer of value from option reserve	23 July 2019	–	5,665
Closing balance	30 June 2020	317,047,357	75,468,632
Issue of 123,499,753 shares to acquire CannPal under Scheme (Note 20(a) and Note 13)	18 March 2021	123,499,753	17,907,464
Costs associated with the acquisition of CannPal		–	(210,909)
Closing balance	30 June 2021	440,547,110	93,165,187

Ordinary shares

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

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

Note 19. Reserves

Share-Based Payments Reserve

The share-based payments reserve is used to recognise the value of share-based payments provided to directors and employees or suppliers for services provided.

	2021 $	2020 $
Movements in Share-Based Payments Reserve:		
Opening balance	1,273,328	1,237,108
Options issued under acquisition scheme of arrangement (Notes 20(a) and 13)	524,049	–
Performance rights issued to employees (refer to Notes 20(b) to 20(d))	186,789	41,885
Options issued to employees (refer to Note 20(e))	25,722	–
Exercised options	–	(5,665)
Adjustment for expired options	(1,223,500)	–
	786,388	1,273,328

The weighted average remaining contractual life of share options outstanding at the end of the year was 0.98 years (2020:0.59 years). The weighted average exercise price during the financial year was $0.16 (2020: $1.31).

Foreign Currency Translation Reserve

The foreign currency translation reserve is used to record exchange differences on translation of the consolidated entity's investment in DayaCann.

Note 20. Share-Based Payments

The total expense arising from share-based payments for the financial year ended 30 June 2021 was $212,511 (2020: $41,855), as detailed below:

a) Shares and Options Issued Under Scheme of Arrangement ("Scheme") for the Acquisition of CannPal Animal Therapeutics Limited ("CannPal")

On 18 March 2021, AusCann acquired 100% of CannPal via a Scheme whereby CannPal shareholders (and optionholders) received 1.3 AusCann shares (1.3 AusCann options) for each CannPal share (CannPal option) held on 15 March 2021. A total of 123,499,753 AusCann shares were issued to CannPal shareholders, and a total of 10,400,000 unlisted AusCann options were issued to CannPal optionholders as part of the Scheme on 18 March 2021.

The 10,400,000 unlisted AusCann options are exercisable at $0.1538 with 9,425,000 expiring on 24 March 2022, 325,000 expiring on 9 November 2022 and 650,000 expiring on 31 December 2024.

See Note 13 for further details and disclosure on the acquisition of CannPal.

i) Valuation of AusCann Shares Issued Under the Scheme

The consideration issued in respect to the 123,499,753 AusCann shares were valued at AusCann's closing price on 18 March 2021 of 14.5 cents (total market value of $17,907,464).

Shares Issued to the Non-Executive Directors

Part of the 123,499,753 AusCann shares issued to CannPal shareholders included 624,380 and 260,000 AusCann shares issued to Robert Clifford and Geoff Starr (AusCann's Non-Executive Directors appointed on 1 April 2021) respectively. These were based on 480,293 CannPal shares held by Mr Clifford and 200,000 CannPal shares held by Mr Starr immediately prior to the Scheme. No AusCann shares were issued to Messrs Clifford and Starr during the 2020 financial year.

Notes to the Financial Statements

Note 20. Share-Based Payments continued

Shares Issued to the Chief Executive Officer

Part of the 123,499,753 AusCann shares issued to CannPal shareholders included 12,532,232 AusCann shares issued to Layton Mills (AusCann's CEO appointed on 18 March 2021), which was based on 9,640,179 CannPal shares held by Mr Mills immediately prior to the Scheme. The 9,640,179 CannPal shares included 1,875,000 CannPal shares issued immediately prior to the acquisition due to their vesting upon a change of control. No AusCann shares were issued to Layton Mills during the 2020 financial year.

ii) Valuation of 9,425,000 Unlisted AusCann Options Issued Under the Scheme

The fair value of the 9,425,000 unlisted options exercisable at $0.1538 and expiring on 24 March 2022 was calculated at $449,946 ($0.04774 each) using the Black-Scholes model with the following assumptions:

Fair value per option (cents)	4.774
Number of options	9,425,000
Total fair value of 9,425,000 unlisted options	$449,946
Assumptions	
Exercise price	$0.1538
Expiry date	24 March 2022
Spot price	$0.16
Expected volatility	72.11%
Dividend yield	Nil
Risk-free rate	0.09%

The above unlisted AusCann options were issued to one of AusCann's advisors as part of the Scheme.

iii) Valuation of 325,000 and 650,000 Unlisted AusCann Options Issued (to Key Management Personnel) Under the Scheme

The fair value of the 325,000 and 650,000 unlisted options exercisable at $0.1538 and expiring on 9 November 2022 and 31 December 2024 respectively was calculated at $74,103 (being $0.05914 and $0.08443 each respectively) using the Black-Scholes model with the following assumptions:

	Tranche 1	Tranche 2
Fair value per option (cents)	5.914	8.443
Number of options	325,000	650,000
Total fair value of tranche	$19,221	$54,882
Assumptions		
Exercise price	$0.1538	$0.1538
Expiry date	9 November 2022	31 December 2024
Spot price	$0.16	$0.16
Expected volatility	72.11%	72.11%
Dividend yield	Nil	Nil
Risk-free rate	0.09%	0.09%

The above 975,000 unlisted AusCann options were issued to Dr Margaret Curtis (one of AusCann's key management personnel) as part of the Scheme, based on 750,000 CannPal options exercisable at $0.20 each held by Dr Curtis immediately prior to the Scheme.

The value of the Scheme share-based payments above was recognised as part of the cost of acquisition of CannPal and no share-based payment expense was recognised with respect to the AusCann shares and unlisted AusCann options issued as part of the Scheme.

b) Performance Rights to be Issued to the Chief Executive Officer

In accordance with Mr Layton Mills' employment contract, the Company will be issuing 2,000,000 CEO Performance Rights to Mr Mills pursuant to the Company's Employee Securities Incentive Plan approved by Shareholders on 27 November 2018 as an incentive for future performance and to satisfy the Company's requirements in relation to the Long-Term Incentives under the CEO's executive appointment announced to the ASX on 23 April 2021, effective 18 March 2021.

The CEO Performance Rights will consist of four (4) equal tranches of 500,000 Performance Rights with market-based achievement goals over a three-year term commencing 18 March 2021 as follows:

- Tranche 1: the share price achieving a minimum of $0.30 for 30 consecutive days;
- Tranche 2: the share price achieving a minimum of $0.50 for 30 consecutive days;
- Tranche 3; the share price achieving a minimum of $0.75 for 30 consecutive days; and
- Tranche 4: the share price achieving a minimum of $1.00 for 30 consecutive days.

The total fair value of the CEO Performance Rights to be issued has been calculated at $188,200. The fair value was calculated using a Parisian Barrier valuation model and the following assumptions were used in the estimation:

	Tranche 1	Tranche 2	Tranche 3	Tranche 4
Fair value per right	$0.1196	$0.1004	$0.0841	$0.0723
Number of rights	500,000	500,000	500,000	500,000
Total fair value of tranche	$59,800	$50,200	$42,050	$36,150
Assumptions				
Spot price	$0.15	$0.15	$0.15	$0.15
Exercise price	Nil	Nil	Nil	Nil
Barrier price	$0.30	$0.50	$0.75	$1.00
Vesting date	N/A	N/A	N/A	N/A
Expiry date	18 March 2026	18 March 2026	18 March 2026	18 March 2026
Vesting schedule	30 consecutive days above exercise price	30 consecutive days above exercise price	30 consecutive days above exercise price	30 consecutive days above exercise price
Expected future volatility	80%	80%	80%	80%
Risk-free rate	0.73%	0.73%	0.73%	0.73%
Dividend yield	Nil	Nil	Nil	Nil

The 2,000,000 CEO Performance Rights have not yet been issued at year end, and none of the performance rights vested during the year.

The share-based payment expense arising from the amortisation of the fair value of the above CEO Performance Rights was $4,423 during the year ended 30 June 2021.

Notes to the Financial Statements

Note 20: Share-Based Payments continued

c) Performance Rights to be Issued to the Chief Financial Officer

In accordance with Mr Charles Altshuler employment contract, the Company will be issuing 1,000,000 CFO Performance Rights to Mr Altshuler pursuant to the Company's Employee Securities Incentive Plan approved by Shareholders on 27 November 2018 as an incentive for future performance as part of the CFO's executive appointment effective 29 March 2021.

The CFO Performance Rights will consist of four (4) equal tranches of 250,000 Performance Rights with market-based achievement goals over a three-year term commencing 29 March 2021 as follows:

- Tranche 1: the share price achieving a minimum of $0.30 for 30 consecutive days;
- Tranche 2: the share price achieving a minimum of $0.50 for 30 consecutive days;
- Tranche 3; the share price achieving a minimum of $0.75 for 30 consecutive days; and
- Tranche 4: the share price achieving a minimum of $1.00 for 30 consecutive days.

The total fair value of the CFO Performance Rights to be issued has been calculated at $94,100. The fair value was calculated using a Parisian Barrier valuation model and the following assumptions were used in the estimation:

	Tranche 1	Tranche 2	Tranche 3	Tranche 4
Fair value per right	$0.1196	$0.1004	$0.0841	$0.0723
Number of rights	250,000	250,000	250,000	250,000
Total fair value of tranche	$29,900	$25,100	$21,025	$18,075
Assumptions				
Spot price	$0.15	$0.15	$0.15	$0.15
Exercise price	Nil	Nil	Nil	Nil
Barrier price	$0.30	$0.50	$0.75	$1.00
Vesting date	N/A	N/A	N/A	N/A
Expiry date	18 March 2026	18 March 2026	18 March 2026	18 March 2026
Vesting schedule	30 consecutive days above exercise price	30 consecutive days above exercise price	30 consecutive days above exercise price	30 consecutive days above exercise price
Expected future volatility	80%	80%	80%	80%
Risk-free rate	0.73%	0.73%	0.73%	0.73%
Dividend yield	Nil	Nil	Nil	Nil

The 1,000,000 CFO Performance Rights have not yet been issued at year end, and none of the performance rights vested during the year.

The share-based payment expense arising from the amortisation of the fair value of the above CFO Performance Rights was $1,841 during the year ended 30 June 2021.

Notes to the Financial Statements

d) Performance Rights Issued to Other Employees

No performance rights were issued to other employees during the 2021 financial year.

Employee Performance Rights were issued pursuant to the Company's Employee Securities Incentive Plan approved by Shareholders on 27 November 2018, in both the 2019 and 2020 financial years as follows:

- During the 2020 financial year, 1,527,200 performance rights were issued to employees with a 3-year vesting period subject to continued employment and market-based performance hurdles. They were valued at $198,841 at grant date and $156,595 vested during this year (2020: $33,464). An amount of $8,782 remains unvested and 1,389,400 Class A Performance Rights lapsed at 30 June 2021.
- During the 2019 financial year 109,200 performance rights were issued to employees with a 3-year vesting period subject to continued employment and market-based performance hurdles. They were valued at $41,026 at grant date and $23,932 vested during this year (2020: $6,894). An amount of $2,257 remains unvested and 65,900 Class A Performance Rights lapsed at 30 June 2021.

e) Options Issued to Other Employees

No options were issued to other employees during the 2021 financial year.

Two (2) tranches of 200,000 options each were issued on 9 June 2020 to Dr Marc Russo, Chief Medical Advisor and Chair of the AusCann Medical Advisory Board. The vesting conditions for each tranche were those of continuous employment of 1 year and 2 years respectively from date of grant. The exercise price for both tranches is $0.255.

The fair value of the options was calculated at a total $34,860 using the Hoadley ESO2 valuation model and the following assumptions:

	Tranche 1	Tranche 2
Fair value per option	$0.0802	$0.0941
Number of options	200,000	200,000
Total fair value of tranche	$16,040	$18,820
Assumptions		
Valuation date	20 March 2020	20 March 2020
Exercise price	$0.255	$0.255
Vesting date	10 June 2021	10 June 2022
Expiry date	9 June 2023	9 June 2024
Spot price	$0.18	$0.18
Expected future volatility	85%	85%
Dividend yield	Nil	Nil
Risk-free rate	0.29%	0.49%
Early exercise multiple	2.5x	2.5x

$25,722 vested during the year ended 30 June 2021 (2020: $1,527). An amount of $7,611 remains unvested at 30 June 2021.

f) Signing Bonus

No signing bonuses were paid during the current or previous financial years.

Notes to the Financial Statements

Note 21. Related Party Transactions

Key Management Personnel

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

	2021 $	2020 $
Short-term benefits	798,262	731,032
Post-employment benefits	65,532	47,280
Share-based payments	87,406	17,432
	951,200	795,744

Transactions with Related Parties

There were no payments or transactions with related parties during the year.

Note 22. Notes to the Statement of Cash Flows

Cash and Cash Equivalents

For the purposes of the statement of cash flows, cash and cash equivalents include cash on hand and deposits at call, net of outstanding bank overdrafts.

Reconciliation of Loss After Tax to Net Cash Used in Operating Activities

	2021 $	2020 $
Net loss after tax	(8,641,391)	(7,076,213)
Adjusted for:		
Gain on disposal of right of use asset and lease liability	(8,804)	–
Depreciation and amortisation	685,794	94,776
Share--based payments	212,511	41,885
Impairment of assets held for sale	–	406,400
Interest on unwinding of lease liabilities	2,615	5,597
Impairment of loan to DayaCann	45,518	219,908
Gain on sale of DayaCann joint venture	(523,003)	–
Gain on transfer of DayaCann loan	(1,456,769)	–

Notes to the Financial Statements

	2021 $	2020 $
Changes in operating assets and liabilities, net of the effects of purchase and disposal of subsidiaries and joint venture:		
(Increase)/Decrease in receivables and other current assets	(172,650)	(53,797)
(Increase)/Decrease in inventories	3,394,673	(3,607,570)
(Increase)/Decrease in non-current prepayments	(139,363)	–
Increase/(Decrease) in trade and other payables	(285,628)	(631,862)
Increase/(Decrease) in provisions	(45,441)	50,365
	(6,931,938)	(10,550,511)

Non-Cash Investing and Financing Activities

On 18 March 2021, the consolidated entity acquired 100% of CannPal Animal Therapeutics Limited ("CannPal") via a scheme of arrangement ("Scheme") which was completed via the issue of 123,499,753 fully paid ordinary shares and 10,400,000 options to CannPal shareholders and optionholders respectively. Further details of this non-cash investing activity is disclosed in Note 13.

There were no other non-cash investing and financing activities undertaken during the financial years ended 30 June 2020 and 30 June 2021.

Note 23. Financial Instruments

a) Capital Risk Management

The consolidated entity manages its capital to ensure that the consolidated entity will be able to continue as a going concern while maximising the return to stakeholders through optimising the debt and equity balance.

b) Financial Risk Management

The consolidated entity's management team coordinates access to domestic financial markets, monitors and manages the financial risks relating to the operations of the consolidated entity and identifies any exposures by degree and magnitude of risks. These risks include credit risk, liquidity and cash flow interest rate risk and currency risk. The consolidated entity actively pursues avenues to minimise the effect of these risks.

Categories of Financial Instruments

	2021 $	2020 $
Financial Assets		
Cash and cash equivalents	13,679,923	19,165,661
Deferred consideration	1,326,018	-
Other current assets (excluding prepayments)	456,902	227,451
	15,462,843	19,393,112
Financial Liabilities		
Trade and other payables	467,095	595,131
Lease liabilities	85,304	94,317
	552,399	689,448

Notes to the Financial Statements

Note 23. Financial Instruments continued

c) Foreign Currency Risk

The consolidated entity undertakes certain transactions denominated in United States dollars ("USD"), Canadian dollars, New Zealand dollars ("NZD"), Euros and British pounds and is exposed to foreign currency risk through foreign exchange rate fluctuations.

The consolidated entity's exposure to foreign currency risk at 30 June is shown in the following table.

	2021 $	2020 $
Financial Liabilities		
Trade and other payables denominated in USD	53,407	-
Trade and other payables denominated in NZD	5,030	-
Total financial liabilities denominated in foreign currency	58,437	-

Foreign Currency Risk Sensitivity Analysis

The following sensitivity analysis is calculated using the foreign currency risk exposures in existence at the reporting date. The 5% (2020: 5%) sensitivity is based on reasonably possible changes over a financial year, using an observed range of actual historical rates, for the AUD/USD and AUD/NZD exchange rates.

At 30 June 2021, if the exchange rates had moved as illustrated in the table below, with all other variables held constant, post-tax profit and equity would have been affected as follows:

	2021 $	2020 $
AUD/USD + 5 %	(2,670)	–
AUD/USD - 5 %	2,670	–
AUD/NZD + 5 %	(251)	–
AUD/NZD - 5 %	251	–

d) Credit Risk Management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the consolidated entity. The consolidated entity has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate. The consolidated entity's exposure and the credit ratings of its counterparties are continuously monitored. Credit exposure is controlled by counterparty limits that are reviewed periodically.

The consolidated entity does not have a significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The credit risk on liquid funds and borrowings is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

e) Interest Rate Risk Management

The consolidated entity is exposed to interest rate risk as it holds cash deposits at floating interest rates. Exposure to interest rate risk arises on the consolidated entity's cash and cash equivalents.

Interest Rate Sensitivity Analysis

The sensitivity analysis has been determined based on the exposure to interest rates at the reporting date and the stipulated change taking place at the beginning of the financial year and held constant throughout the year. The directors have determined that a 50 basis-point increase or decrease represents management's assessment of the possible changes in interest rates.

At reporting date, if the interest rates had been 50 basis points higher or lower and all other variables were held constant, the consolidated entity's net profit would have been increased by $75,841 (2020: $96,579) and decreased by $75,841 (2020: $96,579) respectively. This is attributable to the consolidated entity's exposure to interest rates on its variable rate deposits.

The consolidated entity's exposure to interest rate risk at 30 June 2021 is shown in the following table.

	2021 $	2020 $
Financial Assets		
Cash at bank	13,679,923	19,165,661
Short term deposits	162,178	150,179
Loan to DayaCann	–	–
Deferred consideration	1,326,018	–
	15,168,119	19,315,840

f) Liquidity Risk Management

Ultimate responsibility for liquidity risk management rests with the board of directors. The consolidated entity manages liquidity by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

g) Maturity Profile of Financial Liabilities

The following tables detail the consolidated entity's remaining contractual maturity for its non-derivative financial liabilities. The financial liabilities represent undiscounted cash flows based on the earliest date on which the consolidated entity can be required to pay.

	Less than 1 year $	1 to 5 years $	5+ years $	Total $
2021				
Trade and other payables	467,095	–	–	467,095
Lease liabilities	45,433	39,871	–	85,304
	512,528	39,871	–	552,399
2020				
Trade and other payables	595,131	–	–	595,131
Lease liabilities	39,884	54,433	–	94,317
	689,448	54,433	–	689,448

Notes to the Financial Statements

Note 24. Fair Value Measurement

a) Fair Value Hierarchy

The following tables detail the consolidated entity's assets and liabilities, measured or 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

Consolidated – 2021	Level 1 $	Level 2 $	Level 3 $	Total $
Assets				
Acquired intellectual property (refer Note 12)	–	–	17,037,944	17,037,944
Total Assets	–	–	17,037,944	17,037,944

No assets and liabilities were measured or disclosed under Levels 1, 2 or 3 during the previous financial year.

Assets and liabilities held for sale are measured at fair value on a non-recurring basis.

There were no transfers between levels during the financial year.

The fair value of short-term financial assets and financial liabilities approximate their carrying values because of their short term to maturity.

The consolidated entity currently has no long-term financial assets or borrowings, except lease liabilities.

b) Valuation Techniques for Fair Value Measurements Categorised within Level 3

The acquired intellectual property detailed in Note 12 was fair-valued at the acquisition date of CannPal on 18 March 2021, as detailed in Note 13, and was determined by a discounted cash flow model. This was based on a five-year projection period and extrapolated for a further seven years using a steady rate, together with a terminal value as approved by management.

Level 3 Assets and Liabilities

Movements in Level 3 assets and liabilities during the current and previous financial year are set out below:

Consolidated	Acquired Intellectual Property $	Total $
Balance at 1 July 2020	–	–
Additions via acquisition (refer Note 13)	17,492,283	17,492,283
Amortisation recognised in profit or loss	(454,339)	(454,339)
Balance at 30 June 2021	17,037,944	17,037,944

Notes to the Financial Statements

The Level 3 assets and liabilities unobservable inputs are as follows:

	Unobservable Inputs				
Product	Annual Revenue Growth Rate (i)	Average Gross Margin (i)	Royalty (i)	Discount Factor (i)	Upfront Licence
DermaCann®	3%	65%	N/A	30%	N/A
CPAT-01	30%	N/A	5%	30%	To cover stage 3 clinical trials, regulatory approvals and all past research and development costs plus additional based on intellectual property and goodwill
MicroMAX®	3%	55%	N/A	30%	N/A

i) The annual revenue growth, average gross margin and royalty factors for DermaCann®, CPAT-01 and MicroMAX® are estimated based on market information for similar types of companies with similar products and in similar industries.

ii) The discount rates for DermaCann®, CPAT-01 and MicroMAX® are determined using a capital asset pricing model to calculate a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the assets.

Note 25. Commitments, Contingent Assets and Contingent Liabilities

There were no commitments, contingent assets or contingent liabilities as at 30 June 2021 and as at 30 June 2020.

Note 26. Auditor Remuneration

	2021 $	2020 $
The auditor of the consolidated entity is PKF Perth.		
Fees paid or payable to PKF Perth:		
Audit or review of the financial report	82,500	78,840
Taxation services	5,000	7,000
Other services	–	2,750
Fees paid or payable to other audit firms:		
Audit or review of the financial report	6,359	29,409
	93,859	117,999

Notes to the Financial Statements

Note 27. Parent Entity Disclosures

	2021 $	2020 $
AusCann Group Holdings Ltd ("AusCann") is the legal parent entity.		
Current assets	27,070,626	35,769,521
Total Assets	**79,712,081**	**35,842,699**
Current liabilities	(9,204)	(52,044)
Total Liabilities	**(9,204)**	**(52,044)**
Issued capital	193,554,090	175,646,626
Share-based payment reserve	786,388	1,273,328
Accumulated losses	(114,637,601)	(141,129,298)
Total equity	79,702,877	35,790,656
Profit (Loss) of the parent entity	(8,911,966)	(7,614,886)
Total comprehensive profit (loss) of the parent entity	(8,911,966)	(7,614,886)

		Percentage Interest		
Legal Subsidiaries	Country of Incorporation	2021 %	2020 %	Principal Activities
AusCann Operations Pty Ltd (formerly AusCann Group Holdings Ltd)	Australia	100%	100%	Medicinal cannabis research and development
CannPal Animal Therapeutics Limited ("CannPal")	Australia	100%	–	Research and development of animal health products

AusCann Group Holdings Ltd (formerly TW Holdings Limited) acquired AusCann Operations Pty Ltd in a reverse acquisition on 19 January 2017.

CannPal was acquired on 18 March 2021 via a scheme of arrangement ("Scheme") whereby CannPal shareholders received 1.3 fully paid ordinary shares in AusCann for every 1 fully paid ordinary share held in CannPal (see further details in Note 13).

Guarantees Entered into by the Parent Entity in Relation to the Debts of Its Subsidiaries

The parent entity has not issued any guarantees in respect of debts of its subsidiaries.

Contingent Liabilities

The parent entity had no contingent liabilities as at 30 June 2021 and 30 June 2020.

Capital Commitments - Property, Plant and Equipment

The parent entity had no capital commitments for property, plant and equipment as at 30 June 2021 and as at 30 June 2020.

Significant Accounting Policies

The accounting policies of the parent entity are consistent with those of the consolidated entity, as disclosed in Note 1, except that investments in subsidiaries are accounted for at cost, less any impairment, in the parent entity.

Note 28. Events Subsequent to Reporting Date

The impact of the Coronavirus (COVID-19) pandemic is ongoing and while it has been financially positive for the consolidated entity up to 30 June 2021, it is not practicable to estimate the potential impact, positive or negative, after the reporting date. The situation is rapidly developing and is dependent on measures imposed by the Australian Government and other countries, such as maintaining social distancing requirements, quarantine, travel restrictions and any economic stimulus that may be provided.

The remaining 181,100 Class A Performance Rights lapsed on 6 August 2021.

Other than as identified above, no events occurring subsequent to the end of financial year have significantly affected, or may significantly affect, the operations of the consolidated entity in subsequent financial years.

Directors' Declaration

The Directors of the consolidated entity declare that:

1. the financial statements, notes and additional disclosures included in the Directors' report designated as audited, of the consolidated entity are in accordance with the *Corporations Act 2001*, including:
   a) complying with Accounting Standards, the *Corporations Act 2001* and other mandatory professional reporting requirements; and
   b) giving a true and fair view of the Company's and consolidated entity's financial position as at 30 June 2021 and of their performance for the year ended on that date.
2. The financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in Note 1 to the financial report.
3. In the Directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
4. This declaration has been made after receiving the declarations required to be made to the Directors in accordance with section 295A of the *Corporations Act 2001* for the financial year ended to 30 June 2021.

This declaration is made in accordance with a resolution of the Board of Directors:

K. Maxwell Johnston

Max Johnston
Chairman

27 August 2021

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INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF AUSCANN GROUP HOLDINGS LIMITED

Report on the Financial Report

Opinion

We have audited the accompanying financial report of AusCann Group Holdings Limited (the company), 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, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the company and the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

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

i) Giving a true and fair view of the consolidated entity's financial position as at 30 June 2021 and of its performance for the year ended on that date; 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the consolidated entity 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.

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Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current year. This matter was 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 audit opinion on this matter. For each matter below, our description of how our audit addressed the matter is provided in that context.

1. Existence and Valuation of inventory

Why significant	How our audit addressed the key audit matter
As at 30 June 2021 the carrying amount of inventory recognised was $212,898 within the consolidated statement of financial position. This amount had been reduced by the provision for stock obsolescence of $2,593,417 with a corresponding amount recognised within the statement of profit or loss and other comprehensive income. This has been disclosed in Note 7 to the financial report. Under Australian Accounting Standard AASB 102 Inventories, assertions of existence and valuation were the key matters addressed during the audit. The consolidated entity's accounting policy in respect of inventory is outlined in Note 1(u) and note 1(aa) addresses key assumptions and estimates. The impairment indicators were that: • Significant portion of the resin was not expected to be utilised in the manufacturing process within its expected shelf life. • The net realisable value of the resin was lower than its recognised cost, due to the significant drop in market industry prices. This was considered to be a key audit matter due to the significance of the gross stock balance, and the judgements and estimates incorporated into the provision for obsolete stock.	Our work included, but was not limited to, the following procedures: • Undertook a physical stock take attendance to confirm existence as at reporting date; • Testing of cost, on a sample basis, and cut-off to confirm valuation; • Assessed any slow movement stock or obsolete items and ensure impairments are recognised accordingly; • Testing for net realisable value and obsolescence, on a sample basis, to confirm valuation; and • Assessing the appropriateness of the related disclosures in Notes 1(u), 1(aa) and 7 to the financial report.

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2. Business combination of CannPal Animal Therapeutics Pty Ltd

Why significant	How our audit addressed the key audit matter
During the financial year, the consolidated entity acquired 100% interest in CannPal Animal Therapeutics Limited. As disclosed in Note 12 and Note 13, as part of the business combination transaction, the consolidated entity recognised $17.492 million as intangible assets, relating to the intellectual property of its 3 products, being DermaCann, Max and CPAT-01: Significant judgement is required in valuing the acquired identifiable intangible assets. The consolidated entity performed the valuation of the identifiable intangible assets. The consolidated entity engaged an independent expert to assist in the valuation of the business. This was considered a key audit matter due to the complexity and judgements involved in the application of the requirements of AASB 3, including the valuation of identifiable intangible assets. In addition, the net book value of intangible assets represent 38% of total assets in the consolidated entity.	Our work included, but was not limited to, the following procedures: • Obtaining a detailed understanding of the acquired business; • Assessing the competency and objectivity of the independent expert and the scope of their work; • Reviewing and understanding the valuation methodology and key judgements made in determining the fair values such as: - Forecast sales revenue and related costs; - Growth rates; - Discount rates; - Estimated useful lives. • Assessing the appropriateness of the valuation methodology of the intangible assets employed by management and evaluating the key assumptions used in determining the fair values; • Assessing the fair value of the assets and liabilities acquired; • Assessing the fair value of the consideration paid and the recognition; and • In addition, we assessed the appropriateness of the disclosures in relation to both the business combination and intangible assets acquired included in Notes 1(t), 1(s), 12, 13 and 23.

Other Information

Those charged with governance are responsible for the other information. The other information comprises the information included in the consolidated entity's annual report for the year ended 30 June 2021, but does not include the financial report and our auditor's report thereon.

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

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.

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Responsibilities of 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 consolidated entity's ability 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 consolidated entity or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

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

As part of an audit in accordance with Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the consolidated entity's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the consolidated entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the consolidated entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the consolidated entity to express an opinion on the group financial report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Remuneration Report

Opinion

We have audited the Remuneration Report included in the Directors' Report for the year ended 30 June 2021.

In our opinion, the Remuneration Report of AusCann Group Holdings 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.

PKF Perth

PKF PERTH

SHANE CROSS
AUDIT PARTNER

27 AUGUST 2021
WEST PERTH
WESTERN AUSTRALIA

Additional ASX Information

The following additional information is required by the Australian Securities Exchange. The information is current as at 1 October 2021.

Number of Shareholders and Unquoted Security Holders

Shares

As at 1 October 2021, there were 16,272 shareholders holding a total of 440,547,110 fully paid ordinary shares.

Unquoted Securities

The number of unquoted securities on issue as at 1 October 2021 was as follows:

Unquoted Security	Number on Issue
Options exercisable at $0.255 on or before 9 June 2023	200,000
Options exercisable at $0.255 on or before 9 June 2024	200,000
Options exercisable at $0.1538 on or before 24 March 2022	9,425,000
Options exercisable at $0.1538 on or before 9 November 2022	325,000
Options exercisable at $0.1538 on or before 31 December 2024	650,000

Distribution schedule and number of holders of equity securities as at 1 October 2021

	1 – 1,000	1,001 – 5,000	5,001 – 10,000	10,001 – 100,000	100,001 – and over	Total
Fully Paid Ordinary Shares	2,461	5,921	3,349	4,066	475	16,272
Options exercisable at $0.255 on or before 9 June 2023	–	–	–	–	1	1
Options exercisable at $0.255 on or before 9 June 2024	–	–	–	–	1	1
Options exercisable at $0.1538 on or before 24 March 2022	–	–	–	–	1	1
Options exercisable at $0.1538 on or before 9 November 2022	–	–	–	–	1	1
Options exercisable at $0.1538 on or before 31 December 2024	–	–	–	–	1	1

The number of holders holding less than a marketable parcel of fully paid ordinary shares as at 1 October 2021 was 8,708 holding 21,402,039 shares.

Additional ASX Information

Top Twenty Shareholders

	Shareholder name	Number of ordinary shares held	%
1	The Trust Company (Australia) Limited <MOF A/C>	56,379,750	12.80
2	Citicorp Nominees Pty Limited	12,263,518	2.78
3	Mr Layton Patrick Mills <DJs Family A/C>	11,387,582	2.58
4	Ms Tania Maree Vidovic <Star V Family A/C>	7,400,874	1.68
5	Merrill Lynch (Australia) Nominees Pty Limited	5,754,883	1.31
6	Mr George Chien Hsun Lu + Mrs Jenny Chin Pao Lu	4,958,999	1.13
7	Pepaanne Pty Ltd <The Chapman Family A/C>	4,600,000	1.04
8	Mr Warren Sidney Langman	4,235,928	0.96
9	HSBC Custody Nominees (Australia) Limited	3,340,101	0.76
10	BNP Paribas Nominees Pty Ltd <Ib Au Noms Retailclient DRP>	2,813,910	0.64
11	BNP Paribas Nominees Pty Ltd ACF Clearstream	2,639,184	0.60
12	Ajava Holdings Pty Ltd	2,600,000	0.59
13	Miss Xiaodan Fu	2,577,402	0.59
14	Mr George Chien-Hsun Lu	2,569,999	0.58
15	Bnp Paribas Noms Pty Ltd <DRP>	2,563,129	0.58
16	Marcus Kelly Property Developments Pty Ltd	2,500,000	0.57
17	Wil & Jack Pty Ltd <Wil & Jack Family A/C>	2,348,106	0.53
18	Lu's International Limited	2,339,999	0.53
19	Mr John Andrew Rodgers <John Rodgers Family A/C>	2,316,372	0.53
20	Ms Kate Eloise Toft <Johnstone Family A/C>	2,237,521	0.51
		137,827,257	**31.29**

Additional ASX Information

Holder Details of Unquoted Securities

Unquoted security holders that hold more than 20% of a given class of unquoted securities as at 1 October 2021 other than options which were issued under an employee incentive scheme are as follows:

Security	Name	Number of Securities
Options exercisable at $0.1538 on or before 24 March 2022	Zelda Therapeutics Limited	9,425,000

Restricted Securities as at 1 October 2021

24,065,219 fully paid ordinary shares are under voluntary escrow until 18 March 2022.

Substantial Shareholders

Substantial shareholders in AusCann Group Holdings Ltd and the number of equity securities over which the substantial shareholder has a relevant interest as disclosed in substantial holding notices provided to the Company are listed below:

	Shareholder name	Ordinary shares held	% Ordinary shares held	Date of Notice
1	Merchant Funds Management Pty Ltd as manager of the Merchant Opportunities Fund and Merchant Group Pty Ltd	72,223,727	16.39%	18 March 2021

Voting Rights

All fully paid ordinary shares carry one vote per share without restriction.

Unquoted options have no voting rights.

Corporate Governance

The Board of AusCann Group Holdings Ltd is committed to achieving and demonstrating the highest standards of Corporate Governance. The Board is responsible to its Shareholders for the performance of the Company and seeks to communicate extensively with Shareholders. The Board believes that sound Corporate Governance practices will assist in the creation of Shareholder wealth and provide accountability. In accordance with ASX Listing Rule 4.10.3, the Company has elected to disclose its Corporate Governance policies and its compliance with them on its website, rather than in the Annual Report. Accordingly, information about the Company's Corporate Governance practices is set out on the Company's website at www.auscann.com.au.

AusCann

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