



BUILDING COMMERCIAL MOMENTUM

Annual Report 2020

CANN
GROUP LIMITED

About Cann Group

Established in 2014, Cann Group is the first company in Australia to be issued with a cannabis research licence by the Federal Department of Health's Office of Drug Control (ODC) in February 2017. This licence authorises Cann to cultivate cannabis (in association with a relevant permit) for research purposes. In addition, in March 2017, Cann Group was issued Australia's first medicinal cannabis licence, which authorised Cann to produce Australian-grown cannabis (in association with a relevant permit) for medicinal purposes.

Cann has established R&D and cultivation facilities in Australia and is pursuing a fully-integrated business model with collaboration agreements, resources and capabilities that will enable it to establish a leading position in plant genetics, breeding, cultivation, production, manufacturing, and clinical evaluation to facilitate the supply of medicinal cannabis for a range of diseases and medical conditions.

Cann Group listed on the Australian Stock Exchange (ASX) in 2017 with a vision to become Australia's leading developer and supplier of cannabis, cannabis resin and medicinal cannabis products.

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Corporate Information

These are the full financial statements of Cann Group Limited (Company) and its subsidiaries, including Cannproducts Pty Ltd (incorporated and domiciled in Victoria, Australia), Cannoperations Pty Ltd (incorporated and domiciled in Victoria, Australia), Cann IP Pty Ltd (incorporated and domiciled in Victoria, Australia) and Botanitech Pty Ltd

(incorporated and domiciled in Victoria, Australia), (together, the Group). These financial statements are for the year ended 30 June 2020. Unless otherwise stated, all amounts are presented in \$AUD.

A description of the Group's operations and of its principal activities is included in the review of operations and activities in the attached Directors' Report.

Directors

Mr Allan McCallum AO (Chairman)
Mr Philip Jacobsen (Deputy Chairman)
Mr Douglas Rathbone AM
Mr Geoffrey Pearce

FY20 Highlights



Building commercial momentum by signing six new supply agreements in domestic and foreign markets.



Focused on delivery of our immediate goals of completing sales and producing revenue.



Continuing to progress our growth opportunity of funding and completing the Mildura project.



Committed to the fully integrated business model that differentiates us and leads us to maximise profitability.

Building momentum by strengthening our business model

Cann – a leading medicinal cannabis producer and global supplier, underpinned by our vertically integrated business model



1

Cultivars

Testing, identifying & focusing on strains with suitable attributes for cultivation at scale.



2

Collaborations

R&D capabilities bolstered by work alongside Agriculture Victoria, the CSIRO & La Trobe University.



3

Production

Existing facilities currently provide 1,200kg p.a. in capacity with Cann's cultivation team leveraging its learnings from Aurora Cannabis – over 70 harvests completed to date.



4

Manufacturing

Arrangements with IDT Australia Ltd to manufacture Active Pharmaceutical Ingredients (resin & oils) and finished products under GMP.

Consolidating our leadership position

Cann is now established as a vertically-integrated medicinal cannabis company with strong capabilities and partnerships across its research, cultivation, manufacturing, product development and distribution activities.

We have strong commercial momentum and we are confident of generating meaningful near-term sales while we continue to develop new and exciting medium and longer term market opportunities.

Cann has executed supply and offtake agreements with customers in Australia and overseas and we are in discussions with additional potential customers.



5

Distribution

National distribution agreement with Symbion to deliver Cann finished product through pharmacies and hospitals across Australia.



6

Supply

Agreements in place to supply customers in Australia & overseas markets including New Zealand, Canada, the UK, and Germany.



7

Products

Expanding range of value-added locally produced & imported products launched to Australian patients.

The Company's commitment to genetics research and thorough clinical evaluation will help ensure Australian patients – and patients in overseas markets – have access to safe, innovative and high-quality medicinal cannabis treatment options.

Building momentum through a multi-pronged growth strategy

Multiple pillars of growth

Cann continues to pursue its objectives for growth and consolidate its market leadership position by executing on four core strategic pillars:

PILLAR 1

Revenue growth

- Cann continues to execute on a B2B strategy
- Cann has multiple supply/offtake agreements in place with both Australian domestic and overseas based medicinal cannabis companies
- Seven executed contracts including most recently a publicly listed Australian B2B customer
- Cann is currently pursuing additional contracts
- Five further contracts under negotiation
- Based on customer forecasts, Cann is projecting meaningful revenues in FY21.

PILLAR 2

Product pipeline

- Cann is developing a range of value-added finished product formulations
- Cann's extensive genetics program aims to develop multiple cannabis strains that potentially address specific indications
- Cann's manufacturing arrangements with IDT Australia give it a proven capability to produce products to GMP standards.

PILLAR 3

Mildura expansion

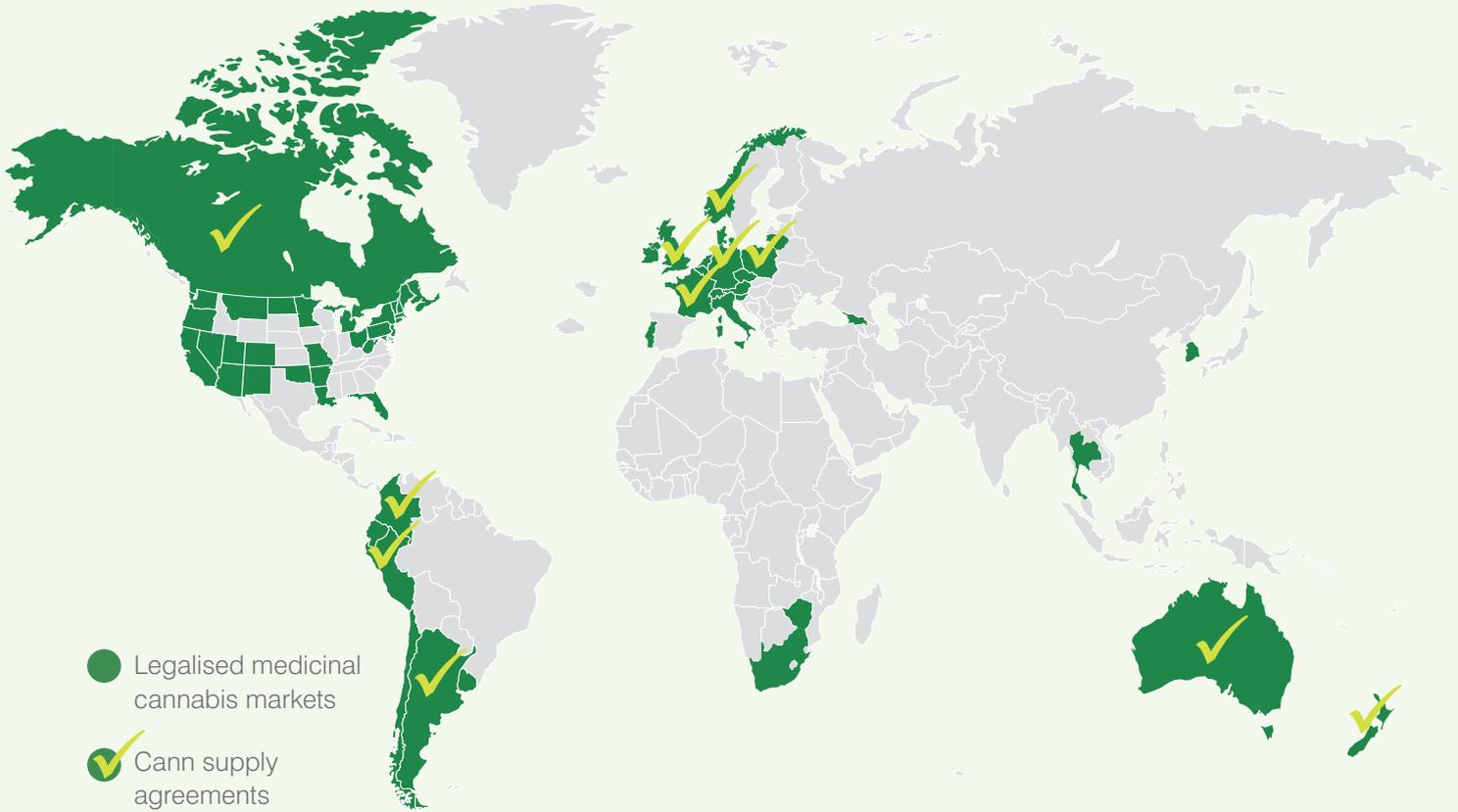
- Cann remains committed to Mildura expansion plans
- Mildura facility will provide substantial technology and efficiency gains
- Expansion provides scale and cost base to enable Cann to be globally competitive
- Substantial uplift in margins as Cann transitions from imported biomass to Mildura cultivation.

PILLAR 4

Strategic M&A

- Cann Group continues to review strategic M&A opportunities that drive near term revenues and consolidate an industry leadership position
- Future industry consolidation may lead to additional M&A and/or partnership opportunities that are consistent with Cann's growth strategy
- Cann's integrated business model provides opportunities to participate in all levels of the value chain.

Expanding offtake opportunities



Additional offtake arrangements currently being pursued in markets including Australia, Germany and Poland.



Commercial products launched



- Cann has commenced sales – via the Special Access Scheme (SAS) in Australia – of several product formulations
- Current products / formulations include:
 - Finished oil products
 - Bulk extract (API)
 - Finished dose dried flower
 - Bulk dried flower
- Cann has a manufacturing agreement with IDT Australia to produce finished product formulations under GMP conditions
- Large scale production runs of Australian grown & manufactured value-added GMP products have been completed

Mildura remains a critical component of expansion plans



- Cann continues to progress funding options to proceed with a staged Mildura expansion – timing impacted by COVID-19
- Discussions continue regarding a proposed bank loan facility and other funding alternatives
- Cann has existing capacity – supplemented by imported biomass – to meet growing sales demand and targeted revenues in FY21

- Cann is confident that sustainable revenues and growing demand will support both the business case for Mildura and help secure the support of its financiers to fund the project
- The Victorian Government is supporting the project via its Regional Jobs Fund

- \$50m invested to date: Site works, service connections, super structure complete
- Stage 1a to provide capacity of 12,500 kgs p.a.
- Total potential capacity of 70,000 kgs p.a.
- Incorporates state-of-the-art, controlled-environment greenhouse technology
- Combination of technology, efficiencies and scale deliver globally competitive cost position

This plan provides a low risk pathway to near-term positive cash flows & a platform to expand the business as global demand continues to grow.



Message from the Chairman and Chief Executive Officer

The past year has clearly established Cann Group at the forefront of the Australian medicinal cannabis industry – as a leader in cultivating, manufacturing and supplying medicinal cannabis for use here in Australia as well as for export markets.

Our company has responded to several challenges and we have finished the year with strong momentum, well positioned for ongoing growth over the coming 12 months and beyond.

Global market conditions in the first six months of the year led us to review our strategy in January 2020. As a result of that review, we are now focused on building a resilient 'business-to-business' (B2B) model meeting Australian domestic demand, while also taking advantage of export markets which continue to develop. We also committed to a staged development of our new cultivation facility in Mildura, in north-west Victoria. This will allow us to better manage the capital investment requirements associated with expanding our production capacity and help ensure the timing of that expansion coincides with growing demand for our products.

During the 2020 financial year, we were not able to finalise external funding options for proceeding with Mildura. This was in part due to COVID-19 related impacts on the financing environment. We remain confident, however, that a growing revenue base supported by an expanding number of supply agreements will considerably strengthen our position in relation to funding options and this will be our clear focus during this new financial year.

To reflect that confidence, we have forecast revenues of \$15 million in FY21.

We have implemented cost reduction initiatives to preserve cash and redirected our near-term investment priorities into the development and pursuit of further supply agreements which will underpin sustainable revenue growth and future profitability.

Post year-end, we have secured additional working capital for the coming year through a Share Placement to sophisticated and institutional investors to raise \$14.3 million and a Share Purchase Plan (SPP) offered to existing eligible shareholders, initially to raise up to a further \$10 million, offered on the same terms as the Placement. The SPP was oversubscribed following strong support from retail shareholders and the Company increased the size of the SPP by \$15.9 million, to a total SPP of \$25.9 million. We thank new and existing shareholders for their support in these activities.

Our decision to move to a B2B model has allowed us to diversify our customer base and the markets into which we supply our products. We have secured several important agreements with partners both in Australia as well as legalised medicinal cannabis markets in the UK, Europe and New Zealand. These include a distribution agreement with Symbion Health, and supply agreements with Australian-based healthcare company Entoura; a five-year supply agreement with NZ-based Zalm Therapeutics (formerly Pure Cann NZ) in which we have an 8.4% investment; UK-based specialist importer and distributor Astral Health; as well as a three-year agreement with iuvo Therapeutics, a leading independent importer and distributor in Germany.

These new partnerships are in addition to our existing five-year offtake agreement with Aurora Cannabis Inc. That offtake agreement enables Cann to sell several varieties of cannabis products to Aurora until 2024, leveraging on Aurora's far reaching marketing arrangements that capture more than 25 markets globally, including in Europe and South America.

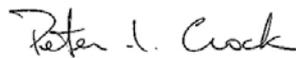
During the year, our manufacturing partnership with Melbourne-based IDT Australia Ltd has progressed. We produced our first batches of cannabis resin along with dried cannabis flower and cannabis oil from our Australian grown cannabis, manufactured under IDT's Good Manufacturing Practices (GMP) certification. Our ability to supply high quality GMP standard product is an important differentiator which is giving us access to more customers and markets.

Cann Group's position as a vertically integrated medicinal cannabis company allows us to build competitive strengths and value-adding partnerships across research, cultivation, manufacturing, product development and distribution. We remain strongly committed to leveraging those strengths and partnerships to ensure that patients in Australia and in overseas markets have access to safe, innovative and high-quality medicinal cannabis treatment options.

We thank our shareholders and partners for their support during FY20 and look forward to further building on these relationships in the year ahead, as we extend our reputation as an industry leader.



Allan McCallum AO
Chairman



Peter Crook
Chief Executive Officer

Operations review

Strategy

During the year, the Company reviewed its near-term growth strategy in response to demand-supply disruptions in the global medicinal cannabis market. The revised strategy involves developing a robust B2B model which can focus on meeting Australian demand and build export opportunities as overseas markets continue to develop. Cann also decided to stage the construction of its new state-of-the-art cultivation facility in Mildura, Victoria, with the timing of construction subject to funding and the necessary approvals.

Stage 1a of Mildura will involve the commissioning of 12,500kg of annual dry flower production, with stage 1b proposed to increase capacity to 25,000kg per annum, with timing subject to volume demand growth that provides confidence in capacity utilisation.

Cann has developed a vertically integrated business that enables it to generate value from multiple points in the value chain. The Company is committed to supplying medicinal cannabis products that meet GMP standards.

Cann will also target production towards value-added downstream formulations and products, which have the potential to generate strong margins and revenues.

Facilities

During the September quarter, Cann Group finalised the design for its large-scale state-of-the-art greenhouse facility in Mildura. This facility will operate in conjunction with its two existing Melbourne facilities. Cann collaborated with its construction partner, Aurora Larssen Projects, to improve space utilisation and efficiencies with the plant production systems, which increased capacity of the design.

Works commenced at the Mildura site, following acquisition of the land and buildings in June 2019, and subsequent acquisition of the two vacant lots adjacent to the property in October 2019. Acquisition of the existing land and buildings and construction of the glasshouse structure was completed during 1H20, with \$50 million expended on the project to date.

The Mildura expansion remains a critical component of Cann's growth strategy. COVID-19 impacts have contributed to a delay in finalising potential funding options for Mildura, and the ability to access European-based specialist contractors on the project.

Cann's Northern and Southern cultivation facilities operated throughout the year, with 33 harvests successfully completed during the 12-month period.

Regulation

In July 2019, Cann Group received approval from the ODC for manufacturing licences for the Company's existing Northern and Southern medicinal cannabis facilities in Melbourne. The licences relate to the manufacturing, packaging, storage, transport and disposal of medicinal cannabis in final dose and intermediate forms. The ability to undertake these activities at both the Northern and Southern facilities gives the Company flexibility as it progresses the development of the Mildura facility.

These approvals gave Cann Group all requisite cultivation, production and manufacture licences under the *Narcotics Drugs Act 1967*, along with import and export licences under the *Customs Act 1901*.

Commercial partnerships

The ODC manufacturing licences for Cann's Melbourne facilities received in July 2019 complemented its manufacturing arrangements with IDT Australia Ltd (ASX:IDT), which received an ODC manufacturing licence in May 2019. Cann and IDT have a manufacturing agreement for IDT to provide manufacturing support in relation to medicinal cannabis-based product formulations for patients in Australia and overseas. IDT has GMP approved facilities which offer Cann Group immediate access to proven expertise in pharmaceutical manufacturing. Cann signed a manufacturing agreement in August 2018 with IDT for production of medicinal cannabis formulations.

Stability testing of Cann's first locally sourced and manufactured formulations was undertaken in the March quarter of 2020. Results from this work paved the way for commercial launch under the Special Access Scheme (SAS) and B2B sales, with the potential for export of the product.

Cann signed a number of significant agreements with other commercial partners during the year.

In November, the Company announced the execution of a distribution agreement with Symbion Pty Ltd as well as the launch of a range of imported medicinal cannabis products for supply to approved SAS patients.

Cann signed a supply agreement with Entoura Pty Ltd, an Australian operated healthcare company, developing and supplying high quality medicinal cannabis products. Cann Group is supplying its whole plant extract product range to Entoura for distribution to Australian patients via the TGA's Special Access Scheme.

Cann Group also executed a five-year supply agreement with New Zealand based Zalm Therapeutics Ltd (formerly Pure Cann NZ Limited), which is building a patient-centric medicinal cannabis business focused on supplying cannabinoid-based medicines to patients in New Zealand and other key global markets. New Zealand's medicinal cannabis regulations came into effect on 1 April 2020.

Cann Group, through its wholly owned subsidiary Botanitech Pty Ltd (Botanitech), initially held 3.9% of the issued capital of Zalm Therapeutics, for which it paid NZ\$1 million (out of a previously committed total amount of NZ\$6 million on a staged basis, as announced to the market on 26 April 2019). In August 2020, Cann Group increased its holding to circa 8.4% in exchange for an issue to Zalm Therapeutics of new shares in Cann Group having a value of NZ\$1 million. Cann Group is no longer obligated to invest the unpaid balance of NZ\$4 million into Zalm Therapeutics given these new arrangements.

In May, Cann signed two new supply agreements involving the export of medicinal cannabis products and dried flower material for sale in UK and European markets.

The first agreement was with Astral Health Limited, a UK-based specialist importer and distributor of medicinal cannabis products. Astral Health is a subsidiary of LYPHE Group, a European leader in medicinal cannabis solutions across distribution channels, including medicinal cannabis clinics, online pharmacies, and healthcare practitioner

training. The UK's medicinal cannabis market continues to expand, with the lifting of import restrictions in March allowing licenced wholesalers to build inventory for future supply needs. The Astral Health supply agreement is a multi-year agreement with options to extend. Cann Group will supply a range of formulated oils, including high THC, high CBD and a balanced formulation. The agreement provides for additional products to be developed and supplied to Astral Health over time.

Cann Group also executed an agreement with Germany-based iuvo Therapeutics GmbH for the supply of medicinal cannabis oil formulations and dried flower material for sale within Germany and other European countries. Germany is Europe's largest medicinal cannabis market with 2019 sales exceeding all other European markets combined.

iuvo Therapeutics GmbH is a leading independent GMP certified importer and distributor in Germany, and a subsidiary of Wundr Co., a pharmaceutical company focused on providing a diversified portfolio of medical cannabis products for European patients. The agreement with iuvo is for a period of three years, with the option to extend. Supply will commence when all relevant regulatory approvals are received from the Australian and European authorities.

Cann Group also has a five-year offtake agreement with Aurora Cannabis Inc. The offtake agreement enables Cann to supply GMP-processed dry flower, extracted resin and manufactured medicinal cannabis products to Aurora until 2024. Aurora has marketing arrangements in 25 medical cannabis markets, including in Europe and South America.

It was under this partnership with Aurora that Cann Group took receipt of product from Aurora in late September. Cann obtained multiple import licences issued by the ODC, with accompanying export permits issued by Health Canada, which allow the company to establish a reliable and consistent supply of cannabis-based medicines for Australian patients, without the risk of product shortages.

Production and manufacturing

GMP extraction activities were transitioned from Agriculture Victoria to IDT in January 2020 for the first commercial scale batches of medicinal cannabis resin, paving the way for formulation and packaging activities to produce a wide range of GMP medicinal cannabis finished dosage form products.

On 1 April 2020, Cann Group reported the first of its GMP-manufactured product formulations, dried cannabis flower and cannabis oil from its Australian-grown cannabis, completed initial shelf life stability testing and was ready for release to the market to fill specific customer orders.

Cann subsequently supplied cannabis oil product to Entoura in April 2020 for distribution to Australian patients.

In the June quarter, Cann commenced manufacturing a new high CBD oil-based formulation. This product is a combination of Active Pharmaceutical Ingredient (API) from Cann's locally grown CBD dominant cultivar, supplemented with an externally sourced GMP quality CBD isolate. The product has commenced stability studies and is expected to be available for release and sale in Q2 FY21, for domestic supply and export.

Research

During the period, Cann maintained its commitment to quality research, in particular with respect to the Company's genetics program.

Important research partnerships were maintained with a number of external organisations, including Agriculture Victoria and CSIRO, and Cann continued its involvement with LaTrobe MedAg Hub and the NSW DPI CRCP.

Impact of COVID-19

As with many other businesses, Cann Group implemented changes in order to comply with Government-imposed COVID-19 restrictions and guidelines in 2H 20, safeguarding the Company's commitment to the health and welfare of its employees and business partners. Cann Group implemented a business continuity plan which included moving to a shift-based operation for its cultivation facilities and all other staff working from home. As a supplier of medical products to Australian patients, Cann Group's operations are an essential service and the Company expects to continue operating throughout the COVID-19 pandemic.

Industry representation

Cann Group is a founding member of Medicinal Cannabis Industry Australia (MCIA), which is the peak industry organisation for Australia's licensed medicinal cannabis industry. Cann CEO, Peter Crock, was elected inaugural Chairman of MCIA, which launched an industry Code of Conduct during the year and hosted a successful industry conference.

Corporate

Funding and capital raising

On 7 February, the Company secured institutional funding support for working capital via the issue of convertible notes, raising \$8 million, less costs. Full details of these notes were released to the ASX at the time of issuance. 100,000 of the convertible notes were converted to 147,500 ordinary shares on 8 April 2020 and, on 29 July 2020 (subsequent to a capital raising referenced below), a further 5,600,000 notes were converted to 17,185,723 ordinary shares.

Subsequent to the end of the financial year, on 17 July 2020, Cann Group announced a placement (Placement) and Share Purchase Plan (SPP) to raise a total of \$40.2 million (Capital Raising), less costs. Proceeds from the Capital Raising will be used to provide working capital to support the Company's near-term growth plans and provides additional equity that will strengthen the Company's position in terms of securing external debt funding to proceed with the first stage of the Mildura expansion.

The Company accepted applications for 35,750,000 new fully paid ordinary shares (New Shares) amounting to total subscriptions of \$14,300,000 under the Placement. In identifying investors to participate in the Placement, the Company looked to approach existing shareholders whose holdings were of a size where participation under the SPP would be insufficient to maintain their pro-rata ownership. In addition to this, the Company approached a broad range of institutional investors.

Due to significant interest received in the offer, significant scale back was required when allocating available securities. The allocation policy sought to provide existing shareholders who bid into the Placement with their pro-rata allocation. Beyond this, remaining securities available under the offer were allocated to new shareholders, with a focus on investors who had expressed a desire to be long term supporters of the Company. 2,796,080 New Shares to raise \$1,118,432 under

the Placement were subscribed for by related parties (Directors) of the Company and their issue will be subject to shareholder approval under ASX Listing Rule 10.11, to be sought at an extraordinary general meeting of the Company scheduled to be held on 7 September 2020.

In addition to the Placement, a further 64,744,452 new fully paid ordinary shares were issued to shareholders who participated in the SPP. The Company initially only sought to raise up to a further \$10 million under the SPP, with shares being offered on the same terms as the Placement. The SPP was oversubscribed following strong support from retail shareholders and the Company increased the size of the SPP by \$15.9 million, to a total SPP of \$25.9 million.

Victorian Government Regional Jobs Fund grant

In June 2020, Cann Group was awarded a grant for up to \$1.975 million under the Regional Jobs Fund established by the Victorian Government. The grant will assist with funding of electricity upgrades at Cann's proposed Mildura facility in regional Victoria.

Board & management changes

Aurora Cannabis' representative Neil Belot resigned as a non-executive director of Cann on 14 December 2019 in conjunction with his resignation from Aurora.

In December 2019, Geraldine Farrell was appointed Company Secretary of Cann Group and Reena Dahiya as acting Chief Financial Officer, replacing Richard Baker who resigned as Company Secretary and Chief Financial Officer. Greg Bullock later replaced Ms Dahiya as Chief Financial Officer following her resignation. Mr Bullock transitioned from a previous short-term contract as Cann Group's Strategy and Planning Manager.

Post year-end, Cann announced the proposed appointment of Ms Jenni Pilcher to its Board of Directors. This appointment will take effect once clearance of the appointment is provided by the ODC. Ms Pilcher has extensive senior executive experience in the medical and biotechnology sectors and is currently the Chief Financial Officer and Company Secretary of Mach7 Technologies (ASX:M7T). She has previously held executive roles with Alchemia Limited (ASX:ACL) and Mesoblast Limited (ASX:MSB).

Outlook

A key priority for management going into FY21 is to secure additional supply agreements and to work closely with new offtake customers to finalise their specific product and volume requirements and complete related regulatory approvals. The Company expects initial shipments for overseas-based supply customers to occur from September 2020. The Company is otherwise continuing to operate within the COVID-19 restrictions, ensuring that the health and wellbeing of its employees are maintained.

The Mildura expansion remains a critical component of Cann's growth strategy. COVID-19 impacts have slowed progress of potential funding options for Mildura as well as the practical timing of any construction, due to the need to engage European-based specialist contractors.

All funding options for the Mildura expansion continue to be pursued, including a bank debt facility. The Company is forecasting revenues of \$15 million in FY21, underpinned by existing supply contracts, and is confident that a proven track record of sustainable revenues will support both the business case for Mildura and help secure the support of financiers.



MILDURA EXPANSION

Directors' report

Your directors present their report on the Group for the year ended 30 June 2020.

Information on Directors

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

Allan McCallum AO

Dip. Ag Science, FAICD (Non-executive Chairman)

Allan has broad experience as a public company director in agribusiness and healthcare who has strong ethics, proven leadership capabilities and extensive experience in strategy development and implementation and mergers and acquisitions. Allan is the current Chair of Tassal Group Ltd (ASX:TGR) from 7 October 2003 Australia's largest producer of Atlantic salmon and prawns. His previous board roles include Medical Developments International Ltd (ASX:MVP) from 27 October 2003 to 17 December 2018, Incitec Pivot Ltd (ASX:IPL) from 30 January 1998 to 19 December 2013 and Graincorp Ltd (ASX:GNR) from 26 February 1998 to 26 August 2005.

Director since 30 January 2015.

Special Responsibilities – Member of Audit and Risk Committee and Chairman of the Remuneration and Capital Committees.

Interest in Shares – 5,580,000 Ordinary Shares

Philip Robert Nicholas Jacobsen

CPA (Deputy Chairman)

An experienced public company director, he co-founded Premier Artists in 1975 and The Frontier Touring Company in 1979. He serves as a director of Liberation Music, Premier Artists, The Harbour Agency and Jacobsen Bloodstock. Former Chair of MCM Entertainment Group, Philip brings to the Board a 45 plus year history of applying solid fiscal accounting perspectives to an emerging business model in a constantly changing, high demand marketplace. Philip is also an Associate of Chartered Institute of Secretaries ACIS.

Director since 30 January 2015.

Special Responsibilities – Chairman of Audit and Risk Committee and Member of the Remuneration Committee.

Interest in Shares – 4,094,518 Ordinary Shares.

Douglas John Rathbone AM

FATSE, FI ChemE, ARMIT B Comm, TTC

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

Director since 16 March 2015.

Special Responsibilities – Member of Audit and Risk, Remuneration and Capital Committees.

Interest in Shares – 2,331,185 Ordinary Shares.

Geoffrey Ronald Pearce

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

Director since 11 April 2016.

Special Responsibilities – Member of Audit and Risk, Remuneration and Capital Committees.

Interest in Shares – 1,554,195 Ordinary Shares.

Neil Belot

Resigned 14 December 2019.

Directors' report Continued

Chief Executive Officer

Peter Crock

CEO, B.Ag.Sci (Hons); MBA

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

Company Secretary

Geraldine Farrell

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

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

Chief Financial Officer

Greg Bullock

MAppFin, MPA, CFTP

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

Company Secretary and Chief Financial Officer

Richard Baker

M.Commrcl Law, B.Ec., FGIA, CPA

Resigned from the Company 6 December 2019.

Dividends

No dividends have been paid or have been recommended during the year.

Principal activities

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

Operating results for the year

The Group made an operating loss of \$16.94 million for the year ended 30 June 2020 (2019: \$10.93 million).

The Group's basic and diluted loss per share is \$0.119 (2019: \$0.078). The Weighted Average number of Shares used to calculate the basic and diluted earnings per share is 142,187,418 (2019: 139,689,868).

The net assets of the Group are \$61.07 million as at 30 June 2020 (2019: \$77.30 million).

For further detail please refer to the Message from Chairman and Chief Executive Officer and the Operations Review which forms part of this annual report.

Significant changes in the state of affairs

Agreement signed with new counterparties

Cann signed a number of significant agreements with other commercial partners during the year.

In November, the Company announced the execution of a distribution agreement with Symbion Pty Ltd as well as the launch of a range of imported medicinal cannabis products for supply to approved SAS patients.

Cann signed a supply agreement with Entoura Pty Ltd, an Australian operated healthcare company, developing and supplying high quality medicinal cannabis products. Cann Group is supplying its whole plant extract product range to Entoura for distribution to Australian patients via the TGA's Special Access Scheme.

Cann Group also executed a five-year supply agreement with New Zealand based Zalm Therapeutics Ltd (formerly Pure Cann NZ Limited), which is building a patient-centric medicinal cannabis business focused on supplying cannabinoid-based medicines to patients in New Zealand and other key global markets. New Zealand's medicinal cannabis regulations came into effect on 1 April 2020.

Cann also executed supply agreements with Astral Health Limited, a UK-based specialist importer and distributor of medicinal cannabis products, and with Germany-based iuvo Therapeutics GmbH.

The Company is forecasting revenues of \$15 million in FY21.

Mildura facility

All funding options for the Mildura expansion continue to be pursued, including a bank debt facility.

Stage 1a of Mildura will involve the commissioning of 12,500kg of annual dry flower production, with stage 1b proposed to increase capacity to 25,000kg per annum, with timing subject to volume demand growth that provides confidence in capacity utilisation.

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

Directors' report Continued

Future developments, prospects and business strategies

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

Environmental regulation and performance

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

Directors' meetings

The number of meetings of the Company's Board of Directors, Audit and Risk Committee and Remuneration Committee members held during the year ended 30 June 2020 and the number of meetings attended by each Director/member were:

Name	Board Meetings		Audit and Risk Committee Meetings		Remuneration Committee Meetings		Capital Committee Meetings	
	Number eligible to attend	Number attended	Number eligible to attend	Number attended	Number eligible to attend	Number attended	Number eligible to attend	Number attended
Allan McCallum	11	11	2	2	2	2	2	2
Philip Jacobsen	11	11	2	2	2	2	2	2
Douglas Rathbone	11	11	2	2	2	2	2	2
Geoff Pearce	11	11	2	2	2	2	2	2
Neil Belot	5	5	0	0	0	0	0	0

Remuneration Report (Audited)

1. Introduction

This Remuneration Report outlines the Company's remuneration strategy for the financial year ended 30 June 2020 and provides detailed information on the remuneration outcomes for the year for the Directors, Chief Executive Officer (CEO) and other Key Management Personnel. For the purpose of this report, Key Management Personnel are defined as persons having authority and responsibility for planning, directing and controlling major activities of the Group and include all Non-Executive Directors of the Company.

The Directors of the Company are pleased to present the Remuneration Report (Report) for the Company and its subsidiaries (Group) for the financial year ended 30 June 2020. This Report forms part of the Directors' Report and has been prepared and audited in accordance with the requirements of the *Corporations Act 2001*.

2. Key Management Personnel

The following changes are noted to the KMP for the year ended 30 June 2020:

- Mr Richard Baker resigned 6 December 2019 as Company Secretary and Chief Financial Officer
- Ms Reena Dahiya appointed 6 December 2019 as Acting Chief Financial Officer, subsequently appointed Chief Financial Officer on 19 February 2020, and resigned from the role 28 April 2020
- Ms Geraldine Farrell appointed 6 December 2019 as Company Secretary
- Mr Neil Belot resigned 14 December 2019 as Non-Executive Director
- Mr Greg Bullock appointed 28 April 2020 as Chief Financial Officer
- Mr Shane Duncan appointed 12 June 2020 as Chief Operating Officer
- Mr Geoff Aldred appointed 12 June 2020 as Chief Projects & Information Officer
- Mr Neil Gripper resigned 12 June 2020 as General Manager, Operations

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

Non-executive Directors – Current

Name	Title
A. McCallum	Chairman
P. Jacobsen	Deputy Chairman
D. Rathbone	Non-executive Director
G. Pearce	Non-executive Director

Non-Executive Directors (NEDs) – Former

Name	Title
N. Belot	Non-executive Director

Directors' report Continued

Chief Executive Officer (CEO) and Disclosed Executives – Current

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

Disclosed Executives – Former

Name	Title
R. Baker	Company Secretary and Chief Financial Officer
R. Dahiya	Chief Financial Officer
N. Gripper	General Manager, Operations

3. Remuneration philosophy

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

The Company's Remuneration Policy is reviewed at least once a year and is subject to amendment to ensure it reflects best market practice.

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

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

4. Relationship between the Remuneration Policy and Company performance

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

5. Components of remuneration – Non-executive Directors

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

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

Fees payable to the non-executive Directors for the 2020 financial year inclusive of superannuation contributions were as follows:

	\$
Chairman	120,000
Each other non – executive Director	60,000

6. Components of remuneration – Chief Executive Officer and other senior executives

(a) Structure

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

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

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

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

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

(b) Fixed remuneration

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

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

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

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

Directors' report Continued

(c) Variable remuneration – STI Plan

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

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

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

Chief Executive Officer (CEO) and Disclosed Executives – Current

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

Disclosed Executives – Former

Name	STI range calculated on fixed annual remuneration
R. Baker	10% – 20%

For the financial year ended 30 June 2020, required performance achievements for the STI Plan were not obtained and therefore no STI payments were awarded.

(d) Contract for services – Chief Executive Officer

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

(e) Contract for services – senior executives

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

7. Remuneration of Key Management Personnel

Details of the nature and amount of each major element of remuneration of each Key Management Personnel and the Group are set out below. The remuneration tables are calculated on an accruals basis and only include remuneration relating to the relevant period that the employees are a Key Management Personnel of the Company.

		Short-term employment benefits		Post-employment Benefits	Share-based remuneration	Total
		Salary and Fees	STI cash bonus	Super-annuation	Performance Rights	
2020 Financial Year		\$	\$	\$	\$	\$
Non-Executive Directors						
A. McCallum	2020	109,589	–	10,411	–	120,000
	2019	83,059	–	7,891	–	90,950
P. Jacobsen	2020	54,795	–	5,205	–	60,000
	2019	43,830	–	3,470	–	47,300
D. Rathbone	2020	54,795	–	5,205	–	60,000
	2019	43,196	–	4,104	–	47,300
G. Pearce	2020	54,795	–	5,205	–	60,000
	2019	43,196	–	4,104	–	47,300
N. Belot	2020	29,090	–	–	–	29,090
	2019	46,667	–	–	–	46,667
Other Key Management Personnel and Executive Officers						
P. Crock	2020	277,769	21,199	25,387	167,710	492,065
	2019	231,677	105,600	22,009	1,232,500	1,591,786
S. Duncan	2020	267,885	6,060	24,499	–	298,444
	2019	123,077	–	11,692	–	134,769
G. Aldred	2020	196,023	8,200	18,622	–	222,845
G. Farrell	2020	148,204	–	14,079	–	162,283
G. Bullock	2020	76,535	–	7,309	–	83,844
S. Notaro	2019	156,285	7,201	14,847	–	204,012
Total	2020	1,269,480	35,459	115,922	167,710	1,588,571
	2019	770,987	138,480	68,117	1,232,500	2,210,084
Disclosed Executives – Former						
R. Dahiya (Resigned 28 April 2020)	2020	115,868	–	10,392	–	126,260
R. Baker (Resigned 6 December 2019)*	2020	303,522	7,201	8,045	–	318,768
	2019	156,285	32,880	14,847	–	204,012
N. Gripper (Resigned 12 June 2020)	2020	292,463	8,760	25,350	–	326,573
	2019	184,615	–	17,538	–	202,153
Total	2020	711,853	15,961	43,787	–	771,601
	2019	340,900	32,880	32,385	–	406,165

* Includes eligible termination payment to R. Baker of \$180,863.

Directors' report Continued

During the course of the year the Key Management Personnel was defined as the Directors, Chief Executive Officer, Chief Operations Officer, Chief Financial Officer, Chief Compliance Officer and Chief Projects & Information Officer. A member of last year's KMP, being S. Notaro, does not have their details disclosed for the financial year ending 2020 as they no longer meet the definition of a KMP for the Group.

Equity holdings

	Balance as at 1 July 2019	Balance at appointment date (if applicable)	On conversion of performance rights	Acquisitions, disposal or transfers*	Balance at resignation date (if applicable)	Balance as at 30 June 2020	Balance held nominally
2020	Number	Number	Number	Number	Number	Number	Number
Directors							
A. McCallum	5,580,000	–	–	–	–	5,580,000	–
P. Jacobsen	4,094,518	–	–	–	–	4,094,518	–
D. Rathbone	2,331,185	–	–	–	–	2,331,185	–
G. Pearce	1,554,195	–	–	–	–	1,554,195	–
N. Belot	–	–	–	–	–	–	–
Other Key Management Personnel							
P. Crock	340,395	–	–	–	–	340,395	1,000,000
S. Duncan	–	–	–	–	–	–	–
G. Aldred	–	–	–	–	–	–	–
G. Farrell	–	–	–	–	–	–	–
G. Bullock	–	–	–	–	–	–	–
Total	13,900,293	–	–	–	–	13,900,293	1,000,000

* The purchases, disposal or transfers of shares are in compliance with the Company's Securities Trading Policy.

Disclosed Executives – Former

R. Baker	110,464	–	–	(46,500)	(63,964)	–	–
N. Gripper	2,957	–	–	–	(2,957)	–	–
Total	113,421	–	–	(46,500)	(66,921)	–	–

Long-term Incentive Plan – Performance Rights

	Balance as at 1 July 2019	Balance at appointment date (if applicable)	Granted	Vested	Lapsed	Net other change	Balance as at 30 June 2020	Balance held nominally
2019	Number	Number	Number	Number	Number	Number	Number	Number
P. Crock	1,000,000	–	–	–	–	–	1,000,000	–
Total	1,000,000	–	–	–	–	–	1,000,000	–

For the financial year ended 30 June 2020, no performance rights under the LTI Plan were granted to any employees.

^ On 21 November 2017 1,000,000 Performance Rights Class C were issued to the Chief Executive Officer with a total vesting value of \$2,465,000 to 21 November 2019.

The Performance Rights Class C are subject to the following vesting conditions:

- 250,000 Performance Rights Class C subject to the offeree being continuously employed for a period of two years from the grant date and the 30-day Volume Weighted Average Price of Cann Group Limited's ordinary shares as traded on the Australian Securities Exchange (ASX) is greater than \$1.00;
- 350,000 Performance Rights Class C subject to the offeree being continuously employed for a period of two years from the grant date and the 30-day Volume Weighted Average Price of Cann Group Limited's ordinary shares as traded on the ASX is greater than \$1.50;
- 400,000 Performance Rights Class C subject to the offeree being continuously employed for a period of two years from the grant date and the 30-day Volume Weighted Average Price of Cann Group Limited's ordinary shares as traded on the ASX is greater than \$2.00; and
- The final commissioning of the first stage of the Company's Mildura facility.

The grant date was 21 November 2017.

Shares issued on exercise of the Performance Rights Class C will be subject to a restriction period of two years during which the shares issued on exercise of the Performance Rights cannot be transferred or otherwise dealt with. The total vested value as at 30 June 2020 for Class C Performance Rights is \$2,143,087. The change in performance rights value against comparative period reflects the cumulative impact of periodic adjustments to the Share Based Payments Reserve for the Class C Performance Rights as applicable service period hurdles are satisfied.

This is the end of the Remuneration Report.

Directors' report Continued

Shares under option

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

Grant date	Expiry date	Exercise Price (\$)	Number under option
8 April 2020	31 March 2022	0.945	145,007
29 July 2020	31 March 2022	0.460	17,185,723
			17,330,730

Indemnifying officers or auditor

No indemnities have been given, however a Directors and Officers insurance premium totalling \$83,250 has been paid, during or since the end of the year, for any person who is or has been an officer of the Group. No indemnities have been given during or since the end of the year for any person who has been an auditor of the Group.

Proceedings on behalf of the Group

No person has applied for leave of court to bring proceedings on behalf of the Group or intervene in any proceedings to which the Group is a party for the purpose of taking responsibility on behalf of the Group for all or any part of those proceedings.

There were no proceedings during the year.

Events after the end of the reporting period

On 17 July 2020, the Company announced a capital raising of \$24.3 million to support near-term growth. The Company raised \$14.3 million (before costs) by way of a private placement (Placement). Under the Placement, Cann has issued 32,953,920 million fully paid ordinary shares at an issue price of \$0.40 per New share.

Cann Group announced on 24 July 2020 that the following Directors, incoming Director and related parties participated in the Placement in relation to a further 2,796,080 new shares:

- Allan McCallum – Chairman, applied for 500,000 new shares
- Philip Jacobsen – Deputy Chairman, applied for 1,750,000 new shares
- Doug Rathbone – Director, applied for 221,080 new shares
- Geoff Pearce – Director, applied for 200,000 new shares
- Jenni Pilcher – Incoming Director, applied for 125,000 new shares

The Company intends to hold an extraordinary general meeting on 7 September 2020 to obtain approval in accordance with ASX Listing Rule 10.11 to issue the New Shares to the related parties listed above.

The capital raising also included a SSP to eligible shareholders, initially seeking to raise up to \$10 million. Eligible shareholders had the opportunity to apply for up to \$30,000 worth of New Shares. The issue price under the SSP was \$0.40, the same as the Placement. The SPP was oversubscribed following strong support from retail shareholders and the Company increased the size of the SPP by \$15.9 million, to a total SPP of \$25.9 million. On 20 August 2020, 64,744,452 new fully paid ordinary shares were issued to shareholders who participated in the SPP.

On 29 July 2020, the Company announced that 5,600,000 convertible notes were converted to securities resulting in the issue of 17,185,723 ordinary shares at a conversion price of \$0.34. On the same day the Company issued to those note holders 17,185,723 options with an exercise price of \$0.46.

On 11 August 2020, Cann Group increased its holding in Zalm Therapeutics Limited to circa 8.4% of Zalm's issued capital, in exchange for an issue to Zalm of 1,983,890 shares in Cann Group having a value of NZ\$1 million. This share exchange was in accordance with share subscription between Cann Group and Zalm.

On 11 August 2020, the Company announced that it had issued 178,686 fully paid ordinary share by way of placement to Commonwealth Scientific and Industrial Research Organisation as part payment of invoices for services provided under an umbrella services agreement.

Non-audit services

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

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

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

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

Details of the amounts paid to the auditor of the Group, William Buck, for audit and non-audit services provided during the year are set out in Note 7.

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 on page 29.

CEO and CFO declaration

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

Directors' report Continued

Corporate Governance Statement

In accordance with Listing Rule 4.10.3 and the Appendix 4G lodged by the Company, the Company's 2020 Corporate Governance Statement can be found on its website <https://www.canngrouponlimited.com/>.

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



Allan McCallum AO
CHAIRMAN

Date: 27 August 2020

Auditor's independence declaration



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

I declare that, to the best of my knowledge and belief during the year ended 30 June 2020 there have been:

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

William Buck

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

Alan Finnis

A. A. Finnis
Director

Melbourne, 27 August 2020

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(WB015_2007)



Consolidated Statement of Profit or Loss and other Comprehensive Income

FOR THE YEAR ENDED 30 JUNE 2020

	Note	2020 \$	2019 \$
Revenue	3	647,222	2,347,668
Other income	3	1,215,735	1,904,975
Administration and corporate costs	4	(16,007,484)	(13,466,524)
Research and development costs		(1,283,128)	(1,047,608)
Fair value adjustment of biological assets		(640,701)	(465,919)
Loss before transaction costs, finance costs and income tax expense		(16,068,356)	(10,727,408)
Finance costs		(869,031)	(198,909)
Loss before income tax expense		(16,937,387)	(10,926,317)
Income tax expense		–	–
Loss attributable to members of the Group		(16,937,387)	(10,926,317)
Other comprehensive income		–	–
Total comprehensive loss attributable to members of the Group		(16,937,387)	(10,926,317)
Basic and diluted (loss) per share (cents)	5	(11.91)	(7.82)

The accompanying notes form part of these statements.

Consolidated Statement of Financial Position

AS AT 30 JUNE 2020

	Note	2020 \$	2019 \$
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents		1,553,995	46,388,192
Trade receivables		91,642	1,115,436
Prepayments		841,806	722,197
Inventories	8	9,433,838	3,088,624
Biological assets		609,855	391,138
TOTAL CURRENT ASSETS		12,531,136	51,705,587
NON-CURRENT ASSETS			
Property, plant and equipment	9	60,890,390	29,010,258
Intangible assets	10	827,636	112,594
Financial assets at fair value through profit or loss	11	1,009,841	1,200,570
Rental bonds		85,000	85,000
Right of use assets	12	1,057,964	–
TOTAL NON-CURRENT ASSETS		63,870,831	30,408,422
TOTAL ASSETS		76,401,967	82,114,009
LIABILITIES			
CURRENT LIABILITIES			
Unsecured trade and other payables		6,004,950	4,815,530
Lease liabilities	13	485,255	–
TOTAL CURRENT LIABILITIES		6,490,205	4,815,530
NON-CURRENT LIABILITIES			
Convertible Notes	14	8,194,661	–
Lease liabilities	13	642,194	–
TOTAL NON-CURRENT LIABILITIES		8,836,855	–
TOTAL LIABILITIES		15,327,060	4,815,530
NET ASSETS		61,074,907	77,298,479
EQUITY			
Issued equity	15	97,137,199	96,502,220
Performance rights reserve	16	2,143,087	1,975,377
Accumulated losses		(38,205,379)	(21,179,118)
TOTAL EQUITY		61,074,907	77,298,479

The accompanying notes form part of these statements.

Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED 30 JUNE 2020

	Issued equity \$	Performance Rights reserve \$	Accumulated losses \$	Total equity \$
Balance at 1 July 2019	96,502,220	1,975,377	(21,179,118)	77,298,479
Impact of AASB 16 – Right of use assets & liabilities arising under property rental leases (refer Note 2)	–	–	(88,874)	(88,874)
Restated Balance on 1 July 2019	96,502,220	1,975,377	(21,267,992)	77,209,605
Comprehensive loss for the period ended 30 June 2020	–	–	(16,937,387)	(16,937,387)
	96,502,220	1,975,377	(38,205,379)	60,272,218
Transactions with owners in their capacity as owners				
Issue of shares	634,979	–	–	634,979
Vesting of Class C Performance Rights	–	167,710	–	167,710
Balance at 30 June 2020	97,137,199	2,143,087	(38,205,379)	61,074,907

	Issued equity \$	Performance Rights reserve \$	Accumulated losses \$	Total equity \$
Balance at 1 July 2018	95,081,758	1,043,877	(10,252,801)	85,872,834
Comprehensive loss for the period ended 30 June 2019	–	–	(10,926,317)	(10,926,317)
	95,081,758	1,043,877	(21,179,118)	74,946,517
Transactions with owners in their capacity as owners				
Issue of shares	1,119,462	–	–	1,119,462
Issue and vesting of Class C performance rights	–	1,232,500	–	1,232,500
Conversion of Class D Performance Rights	301,000	(301,000)	–	–
Balance at 30 June 2019	96,502,220	1,975,377	(21,179,118)	77,298,479

The accompanying notes form part of these statements.

Consolidated Statement of Cash Flows

FOR THE YEAR ENDED 30 JUNE 2020

	Note	2020 \$	2019 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Revenue from customers		1,671,016	1,475,795
Other income received		951,561	258,086
Payments to suppliers and employees		(20,504,509)	(10,763,368)
Interest received		263,358	1,606,941
Net cash flows (used in) operating activities	20	(17,618,574)	(7,422,546)
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property, plant and equipment		(33,122,199)	(25,325,174)
Acquisition of intangible assets		(1,240,209)	(53,256)
Withdrawal of/(Investment in) term deposits		–	30,082,849
Acquisition of investments		–	(1,200,570)
Net cash flows provided by/(used in) investing activities		(34,362,408)	3,503,849
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issues of Convertible Notes		8,000,000	740,000
Costs of issuing Convertible Notes		(442,559)	–
Repayment of Lease Liability		(410,656)	–
Net cash flows provided by financing activities		7,146,785	740,000
Net (decrease) in cash held		(44,834,197)	(3,178,698)
Cash and cash equivalents at the beginning of the year		46,388,192	49,566,890
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		1,553,995	46,388,192

The accompanying notes form part of these statements.

Notes to the financial statements

1. Corporate information

These are the financial statements of Cann Group Limited (Company) and its subsidiaries, including Cannproducts Pty Ltd, Cannoperations Pty Ltd, Cann IP Pty Ltd and Botanitech Pty Ltd, all incorporated and domiciled in Victoria, Australia (together, the Group). Cann Group Limited is an ASX-listed public company incorporated and domiciled in Victoria, Australia. These financial statements are for the year ended 30 June 2020. Unless otherwise stated, all amounts are presented in \$AUD, which is the functional and presentation currency of all entities in the Group. The financial statements were authorised for issue by the Directors on the date of signing the attached Directors' Declaration.

2. Summary of significant accounting policies

(a) Basis of preparation

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

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

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

The amounts presented in the financial statements have been rounded to the nearest dollar.

Accounting Standards and interpretations

(i) Changes in accounting policy and disclosures

The Group has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the AASB that are mandatory for the current reporting period.

New and amended accounting standards and interpretations commencing 1 January 2019

The Group has adopted AASB 16 *Leases* at 1 July 2019. AASB 16 replaces AASB 117 *Leases* and is effective for reporting periods on or after 1 January 2019. The standard was adopted using the modified retrospective approach as such the comparatives have not been restated.

Policies applicable from 1 July 2019

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

Lease liabilities

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

Lease liabilities are subsequently measured by:

- increasing the carrying amount to reflect interest on the lease liabilities;
- reducing the carrying amount to reflect the lease payments made; and
- remeasuring the carrying amount to reflect any reassessment or lease modifications.

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

Right-of-use assets

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

The cost of the asset includes:

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

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

The Group tests right-of-use assets for impairment where there is an indicator that the asset may be impaired. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

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

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

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

Notes to the financial statements Continued

The impact of adoption of the opening retained earnings at 1 July 2019 was as follows:

Description	1 July 2019 \$
Operating lease commitments as at inception (AASB 16)	2,847,563
Operating lease commitments discount based on weighted average incremental borrowing rate of 6%	(423,325)
Accumulated depreciation as at 1 July 2019 (AASB 16)	(891,377)
Right-of-use assets (AASB 16)	1,532,861
Lease liabilities – current (AASB 16)	(494,207)
Lease liabilities – Non-current (AASB 16)	(1,127,528)
Tax effect on the above adjustments	–
Reduction in operating retained earnings as at 1 July 2019	(88,874)

(b) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all the subsidiaries of the Group as at 30 June 2020 and the results of all its subsidiaries for the reporting period.

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

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

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

The Group has four wholly owned subsidiaries as at 30 June 2020 as follows:

Subsidiary Name	Date Acquired	Number of Shares held	Percentage Shareholding 2020	Percentage Shareholding 2019
Cannproducts Pty Ltd (ACN 600 887 189)	27 February 2015	100	100%	100%
Cannoperations Pty Ltd (ACN 603 323 226)	27 February 2015	100	100%	100%
Cann IP Pty Ltd (ACN 169 764 407)	27 February 2015	100	100%	100%
Botanitech Pty Ltd (ACN 604 834 488)	18 March 2015	100	100%	100%

(c) Income tax

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

Current income tax expense charged to profit, or loss is the tax payable on taxable income. Current tax liabilities (assets) are therefore measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well as unused tax losses. Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled and their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

(d) Revenue recognition

The Group recognises the Revenue as follows:

Revenue from contract with customers

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

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

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

Interest income

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

Notes to the financial statements Continued

Other revenue

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

Government grants

Government grants are recognised when they are received.

(e) Inventory

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

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

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

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

(f) Fair value of financial instruments

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

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

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

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

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

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

Financial Assets	Classification as per AASB 9
Cash and Cash Equivalents	Amortised cost
Trade and other receivables excluding GST	Amortised cost
Marketable securities	FVTPL
Equity interest in other entities	FVTPL

Financial Liabilities	Classification as per AASB 9
Accounts Payable and accrued liabilities	Amortised cost
Loans and Borrowings	Amortised cost
Convertible Note/Debentures	FVTPL

Impairment of financial assets

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

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

(g) Biological assets

The Group defines the biological assets as cannabis plants up to the point of harvest. Biological assets are measured at fair value less cost to sell at the end of each reporting period.

The valuation methodology of biological assets relates to the forecast harvest weights, forecast sale prices, forecast feed costs, labour and overheads, as well as discount rate. Discounted cash flows consider the present value of the net cash flows expected to be generated by the crop at maturity, the expected additional biological transformation and the risks associated with the asset; the expected net cash flows are discounted using risk-adjusted discount rates.

(h) Goods and Services Tax (GST)

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

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

Notes to the financial statements Continued

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to, the ATO are presented as operating cash flows included in receipts from customers or payments to suppliers.

(i) Property, Plant and Equipment

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

The carrying amount of property, plant and equipment is reviewed annually by Directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset's employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

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

Depreciation

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

As at 30 June 2020, the Group's asset classes had effective useful lives as follows:

Asset Class	Useful Life (years)
Cultivation plant and equipment	1 to 7
Manufacturing plant and equipment	2 to 7
Computer and network equipment	1 to 3
Other plant and equipment	1 to 3
Buildings	20
Land	N/A

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the statement of profit of loss and other comprehensive income.

(j) Intangible assets

Intangible assets are carried at cost less any accumulated amortisation and impairment losses.

The carrying amount of intangible assets is reviewed annually by management to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset's employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

The intangible assets are amortised over economic benefits recoverable period of the intangible assets (refer Note 10).

(k) Impairment of non-financial assets

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

(l) Share based payments

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

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

(m) Operating segments

Determination and presentation of operating segments

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

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

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

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

Notes to the financial statements Continued

(n) Borrowings policy

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

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

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

(o) Critical accounting estimates and judgments

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

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

The balance of future income tax benefit estimated as \$4,807,802 (2019: \$2,050,237) arising from current year tax losses of \$16,937,387 (2019: \$10,926,317) and timing differences has not been recognised as an asset because it is not clear when the losses will be recovered. The cumulative future income tax benefit estimated to be \$9,495,657 which has not been recognised as an asset, will only be obtained if:

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

Key judgments – valuation of performance rights

Performance rights issued are measured at the fair value from grant date. These were independently valued using a Binomial valuation model. The data input into this model included the volatility rate of 100%, and risk-free rate of 1.92%.

Key judgments – leases

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

Incremental borrowing rate of 6% (comparable industry rate) per annum is used to calculate the present value of future lease payments.

The Group has two existing leases for premises as follows:

Northern facility

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

Corporate office

The term of the lease is one year commencing 1 July 2020. The lease started in July 2018 for two years and an option was exercised to extend the lease for one year in June 2020. It is probable that the Group will renew the lease.

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

	2020 \$	2019 \$
Lease Liability – Current (within 12 months)	485,255	–
Lease Liability – Non-Current	642,194	–
	1,127,449	–

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

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

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

Key judgments – impact of COVID-19

As with many other businesses, the Group implemented changes in order to comply with Government-imposed COVID-19 restrictions and guidelines in 2H FY20, safeguarding the Group’s commitment to the health and welfare of its employees and business partners.

The Group implemented a business continuity plan which included moving to a shift-based operation for its cultivation facilities and all other staff working from home. As a supplier of medical products to Australian patients, the Group’s operations are an essential service and the Group expects to continue operating throughout the COVID-19 pandemic.

Notes to the financial statements Continued

Key judgments – convertible notes (refer Note 14 – for details)

The Group issued 8,000,000 convertible notes to six investors (Noteholders) at a face value of \$1.00 per convertible note on 10 February 2020, in respect of which the Group received net funds of \$7,560,000 (after costs) in aggregate at the time of issue. These convertible notes are unsecured and will be converted to ordinary equity shares at the time of maturity (along with applicable interest as per the agreement) which is 24 months from the date of issue being 10 February 2022 at the lower of:

- \$0.70 per share
- the volume weighted average price of Cann's ordinary shares during the five trading days following the most recent capital raise of more than \$5 million; or
- the issue price of a capital raise of more than \$5 million, multiplied by 0.85 (Conversion Price).

The convertible notes will not be quoted or tradable on the Australian Securities Exchange (ASX). to the extent that the convertible notes issued to a holder have been converted between the issued date and up to 30 business days after a capital raise, or raises, in aggregate, of more than \$20 million, the Company will issue to the holder one (1) option for each share issued on conversion. The options are exercisable on or before 31 March 2022 at an exercise price calculated at a 35% premium to the Conversion Price.

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

The Group received a valuation of the convertible notes in accordance with professional standard APES 225 Valuation Services from an external counterparty. Fair value is defined as 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 as per AASB 13 *Fair Value Measurement*.

3. Revenue and other income

	2020 \$	2019 \$
Revenue from customers contracts	647,222	2,347,668
Other Income		
Interest	263,358	1,644,702
Research and development tax incentive	937,925	257,786
Other revenue	14,453	2,487
	1,862,958	4,252,643

4. Expenses

Corporate and Administration expenses include the following:

	2020 \$	2019 \$
Depreciation and Amortisation	(2,160,006)	(1,475,318)
Employee salaries	(6,961,146)	(4,519,784)
Employee superannuation	(662,228)	(422,303)
Share-based payments	(167,711)	(1,611,962)
	(9,951,091)	(8,029,367)

5. Basic and diluted loss per share

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

	2020 \$	2019 \$
Net loss attributable to ordinary equity holders (used in calculating basic and diluted EPS)	(16,937,387)	(10,926,317)

	Number of shares	Number of shares
Weighted average number of ordinary shares for the purpose of earnings per share	142,187,418	139,689,867

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

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

Notes to the financial statements Continued

6. Key Management Personnel

(a) Names and positions held of key management personnel in office at any time during the year are:

Key Management Person	Position
Mr Allan McCallum	Chairman
Mr Philip Jacobsen	Deputy Chairman
Mr Douglas Rathbone	Non-Executive Director
Mr Geoff Pearce	Non-Executive Director
Mr Neil Belot (resigned 14 December 2019)	Non-Executive Director
Mr Peter Crock	Chief Executive Officer
Mr Shane Duncan	Chief Operating officer
Mr Richard Baker (resigned 6 December 2019)	Chief Financial Officer
Mr Greg Bullock (from 28 April 2020)	Chief Financial Officer
Ms Geraldine Farrell (from 6 December 2019)	Chief Compliance Officer & Company Secretary
Ms Reena Dahiya (from 6 December 2019, resigned 28 April 2020)	Chief Financial Officer
Mr. Geoff Aldred	Chief Projects & Information Officer
Mr. Neil Gripper (resigned 12 June 2020)	General Manager, Operations

(b) Remuneration paid to Key Management Personnel

	2020 \$	2019 \$
Short-term employee benefits	2,032,753	1,283,247
Post-employment benefits	159,709	100,502
Share-based payments	167,710	1,232,500
	2,360,172	2,616,249

7. Auditor's remuneration

During the year the following fees were paid or payable for services provided by the auditor of Group, its related practices and non-related audit firms:

	2020 \$	2019 \$
(i) Audit and other assurance services		
Audit and review of financial statements	73,500	58,200
Other audit and assurance related services	5,011	620
Total remuneration for audit and other assurance services	78,511	58,820
(ii) Consulting services		
Consulting fees regarding Research and Development Tax Incentive	25,320	31,745
Consulting fees regarding tax services	14,200	15,000
Total remuneration for consulting services	39,520	46,745
Total remuneration of William Buck	118,031	105,565

8. Inventories

	2020 \$	2019 \$
Finished goods – biomass	1,835,987	3,034,431
Finished goods – oil	451,362	–
Finished goods – resin	6,915,152	–
Cultivation materials and work-in-progress	231,337	54,193
	9,433,838	3,088,624

Notes to the financial statements Continued

9. Property, plant and equipment

(a) Property, plant and equipment

As at 30 June 2020						
	Land and buildings \$	Cultivation plant and equipment \$	Manu- facturing plant and equipment \$	Other plant and equipment \$	Capital work in progress \$	Total \$
Cost	13,852,155	6,837,528	530,857	344,971	43,158,325	64,723,836
Accumulated depreciation	(99,416)	(3,483,429)	–	(250,601)	–	(3,833,446)
Closing Balance	13,752,739	3,354,099	530,857	94,370	43,158,325	60,890,390

As at 30 June 2019						
	Land and buildings \$	Cultivation plant and equipment \$	Manu- facturing plant and equipment \$	Other plant and equipment \$	Capital work in progress \$	Total \$
Cost	11,404,084	6,750,332	447,610	302,699	12,442,699	31,347,424
Accumulated depreciation	–	(2,049,050)	–	(149,557)	–	(2,198,607)
Loss on disposal	–	(132,229)	–	(6,330)	–	(138,559)
Closing Balance	11,404,084	4,569,053	447,610	146,812	12,442,699	29,010,258

(b) Movements in property, plant and equipment

As at 30 June 2020						
	Land and buildings \$	Cultivation plant and equipment \$	Manu- facturing plant and equipment \$	Other plant and equipment \$	Capital work in progress \$	Total \$
Opening Balance	11,404,084	4,569,053	447,610	146,812	12,442,699	29,010,258
Additions	2,448,071	219,425	83,247	48,602	30,715,626	33,514,971
Depreciation	(99,416)	(1,434,379)	–	(101,044)	–	(1,634,839)
Closing Balance	13,752,739	3,354,099	530,857	94,370	43,158,325	60,890,390

As at 30 June 2019						
	Land and buildings \$	Cultivation plant and equipment \$	Manu- facturing plant and equipment \$	Other plant and equipment \$	Capital work in progress \$	Total \$
Opening Balance	–	4,136,550	–	1,095,969	–	5,232,519
Reclassifications	–	(1,166,771)	–	(889,136)	2,055,907	–
Additions	11,404,084	2,304,970	447,610	61,641	11,147,752	25,366,057
Transfers	–	760,960	–	–	(760,960)	–
Depreciation	–	(1,334,427)	–	(115,332)	–	(1,449,759)
Loss on disposal	–	(132,229)	–	(6,330)	–	(138,559)
Closing Balance	11,404,084	4,569,053	447,610	146,812	12,442,699	29,010,258

During the year the Group spent AUD \$30,715,626 in Mildura for construction of a greenhouse facility and support building. Materials to construct the greenhouse and to modify the existing building plus preliminary design and other services are classified as capital-work-in-progress until such time as the facility is completed and commissioned for use.

As at 30 June 2020 the Directors conducted an impairment test of the cultivation plant and equipment which was applied as at 30 June 2020 whereby the Directors compared the carrying values of all of the cultivation plant and equipment to the selling values of comparable assets and concluded that no impairment existed relating to these assets.

10. Intangible assets

The Group entered into manufacturing agreement with IDT Australia during the year for production of GMP extracted locally manufactured resin with a CO₂ extraction process and for production of GMP-formulated locally manufactured oil. The initial cost of development of the production lines were one-off set-up costs at IDT facilities, and have been recognised as intangible assets. In the opinion of management these costs will be recovered over a period of three years.

	2020 \$	2019 \$
Costs	918,569	153,257
Accumulated Amortisation	(90,933)	(40,663)
	827,636	112,594

Notes to the financial statements Continued

11. Financial assets at fair value through profit or loss

	2020 \$	2019 \$
Subscription shares Zalm Therapeutics Limited (formerly Pure Cann NZ Limited)	934,841	950,570
Shares in Emerald Clinics Limited	75,000	250,000
	1,009,841	1,200,570

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

The Group, through its wholly owned subsidiary Botanitech, initially held 3.9% of the issued capital of Zalm Therapeutics, for which it paid NZ\$1 million (out of a previously committed total amount of NZ\$6 million on a staggered basis, as announced to the market on 26 April 2019). In August 2020, the Group increased its holding to circa 8.4% in exchange for an issue to Zalm Therapeutics of new shares in the Group having a value of NZ\$1 million. The Group is no longer obligated to invest the unpaid balance of NZ\$4 million into Zalm Therapeutics given these new arrangements.

12. Right of use assets

	2020 \$	2019 \$
As at 1 July 2019	1,532,861	–
Accumulated depreciation	(474,897)	–
As at 30 June 2020	1,057,964	–

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

13. Lease liability

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

The Group has two existing leases for premises as follows:

Northern Facility

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

Corporate Office

The term of the lease is one year commencing 1 July 2020. The Lease started in July 2018 for two years and an option was exercised to extend the lease for one year in June 2020. It is reasonably certain that the Group will renew the lease again.

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

Period	2020 \$	2019 \$
Lease liability – current (within 12 months)	485,255	–
Lease liability – non-current	642,194	–
	1,127,449	–

14. Convertible notes

The Group issued 8,000,000 convertible notes to six investors (Noteholders) at a face value of \$1.00 per convertible note on 10 February 2020, in respect of which the Group received net funds of \$7,560,000 (after costs) in aggregate at the time of issue. These convertible notes are unsecured and will be converted to ordinary equity shares at the time of maturity (along with applicable interest as per the agreement) which is 24 months from the date of issue being 10 February 2022 at the lower of:

- \$0.70 per share
- the volume weighted average price of Cann's ordinary shares during the five trading days following the most recent capital raise of more than \$5 million; or
- the issue price of a capital raise of more than \$5 million, multiplied by 0.85 (Conversion Price).

The convertible notes will not be quoted or tradable on the Australian Securities Exchange (ASX). to the extent that the convertible notes issued to a holder have been converted between the issued date and up to 30 business days after a capital raise, or raises, in aggregate, of more than \$20 million, the Company will issue to the holder one (1) option for each share issued on conversion. The options are exercisable on or before 31 March 2022 at an exercise price calculated at a 35% premium to the Conversion Price.

Notes to the financial statements Continued

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

The Group received a valuation of the convertible notes in accordance with professional standard APES 225 Valuation Services from an external counterparty. Fair value is defined as 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 as per AASB 13 *Fair Value Measurement*.

	2020 \$	2019 \$
Convertible notes issued – February 2020	8,000,000	–
Convertible notes exchanged to equity	(100,000)	–
Interest on convertible notes @ 9.5%	294,661	–
Total	8,194,661	–

Value of embedded derivative

The key assumptions used in valuing the embedded derivative were as follows;

Assumptions	Convertible Notes	Rationale
Historic volatility	85%	Based on 24 months' historical volatility data for the Company
Conversion/Exercise price	0.59	25% discount on the closing share price at 30 June 2020
Share price	0.79	Closing share price on valuation date from external market source
Risk-free interest rate	0.27%	Based on 2-year Australian Government Bond Benchmark Yield
Fair Value	\$4,812,000	Determined using Monte Carlo Simulation model with the inputs above

An initial fair value of the embedded derivative liability (equity conversion feature) was determined based on the above inputs and assumptions has been separate from proceeds received from the issue of the convertible notes to determine the amount of initial value of host debt component of the convertible notes.

Initial values of both the embedded derivative liability and host debt component have been further adjusted for transaction costs that were incurred to raises funds via convertible notes.

After initial recognition, the host debt component of the convertible notes has been measured at amortised cost using the effective interest method as required by AASB 9. The effective interest rate applied is 9.5%. The embedded derivative liability component of the convertible notes has been measured at fair value as required by AASB 9 and fair value movements have been recorded directly in the statement of profit & loss and other comprehensive income.

	Host Debt- Liability \$	Embedded Derivative Liability \$
Balance as at 30 June 2020	3,382,661	4,812,000

15. Issued capital

	30 June 2020 Number of Shares	30 June 2019 Number of Shares	30 June 2020 \$	30 June 2019 \$
Ordinary shares – fully paid	142,892,342	141,804,247	97,137,199	96,502,220
Total issued capital	142,892,342	141,804,247	97,137,199	96,502,220

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

Movements in issued capital:

Issue Date	Issue Price \$	Number of Shares and Options	2020 \$
Balance 1 July 2019		141,804,247	96,502,220
4 October 2019 – settlement of invoice for services	2.08	67,538	140,480
24 December 2019 – settlement of invoice for services	0.46	550,278	253,127
8 April 2020 – conversion of convertible notes	0.70	145,007	101,505
15 June 2020 – settlement of invoice for services	0.43	325,272	139,867
Total issued capital as at 30 June 2020		142,892,342	97,137,199

Movements in issued capital:

Issue Date	Issue Price \$	Number of Shares and Options	2019 \$
Balance 1 July 2018		139,546,632	95,081,758
7 September 2018 – settlement of invoices for services	2.86	50,000	142,901
21 December 2018 – employee share purchase plan	2.19	16,451	36,000
24 December 2018 – settlement of invoices for services	2.20	91,164	200,561
4 May 2019 – conversion of performance rights	3.01	100,000	301,000
13 June 2019 – exercise of options	0.37	100,000	37,000
21 June 2019 – exercise of options	0.37	350,000	129,500
25 June 2019 – exercise of options	0.37	1,000,000	370,000
27 June 2019 – exercise of options	0.37	550,000	203,500
Total issued capital as at 30 June 2019		141,804,247	96,502,220

Notes to the financial statements Continued

16. Performance rights

PERFORMANCE RIGHTS CLASS C

Date	Number of Performance Rights	2020 \$
Balance 1 July 2019	1,000,000	1,975,377
Vesting of performance rights	–	167,710
Balance 30 June 2020	1,000,000	2,143,087

Date	Number of Performance Rights	2019 \$
Balance 1 July 2018	1,000,000	742,877
Vesting of performance rights reserve	–	1,232,500
Balance 30 June 2019	1,000,000	1,975,377

[^] On 21 November 2017 1,000,000 Performance Rights Class C were issued to the Chief Executive Officer with a total vesting value of \$2,465,000 to 21 November 2019.

The Performance Rights Class C are subject to the following vesting conditions:

- 250,000 Performance Rights Class C subject to the offeree being continuously employed for a period of two years from the grant date and the 30-day Volume Weighted Average Price of Cann Group Limited's ordinary shares as traded on the ASX is greater than \$1.00;
- 350,000 Performance Rights Class C subject to the offeree being continuously employed for a period of two years from the grant date and the 30-day Volume Weighted Average Price of Cann Group Limited's ordinary shares as traded on the ASX is greater than \$1.50; and
- 400,000 Performance Rights Class C subject to the offeree being continuously employed for a period of two years from the grant date and the 30-day Volume Weighted Average Price of Cann Group Limited's ordinary shares as traded on the ASX is greater than \$2.00.

The final commissioning of the first stage of the Group's Mildura facility.

The grant date was 21 November 2017.

17. Related party information

Transactions between the Group and related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated. There were no related party transactions not otherwise disclosed in these financial statements during the period ended 30 June 2020.

18. Contingent liabilities and commitments

The Group has a bank guarantee of \$50,000 for the operating premises lease of the Company's Northern Facility.

As at the end of the reporting period, the Group had an obligation to issue NZ\$1 million worth of Cann Group shares to Zalm Therapeutics (formerly known as Pure Cann) whenever a capital raising of a minimum of A\$10 million occurred (as part of a new agreement in April 2020 between the companies). As a result of that new arrangement, Cann Group was no longer required to invest NZ\$4 million into Zalm Therapeutics, an investment which was required under the old arrangement.

Except for the bank guarantee and investment in Zalm Therapeutics, as at the end of the reporting period, the Group had no contingent liabilities or commitments. As a result of events occurring after the end of the reporting period (noted below), Cann Group's obligations to issue shares to Zalm Therapeutics have been fulfilled. Accordingly, except for the bank guarantee, the Group has no contingent liabilities or commitments as at the date of signing this report.

19. Events after the end of the reporting period

On 17 July 2020, the Group announced a capital raising of \$24.3 million to support near-term growth. The Group raised \$14.3 million (before costs) by way of a private Placement. Under the Placement, the Group has issued 32,953,920 million fully paid ordinary shares at an issue price of \$0.40 per New share.

The Group announced on 24 July 2020 that the following Directors and related parties participated in the Placement in relation to a further 2,796,080 new shares:

- Allan McCallum – Chairman, applied for 500,000 new shares
- Philip Jacobsen – Deputy Chairman, applied for 1,750,000 new shares
- Doug Rathbone – Director, applied for 221,080 new shares
- Geoff Pearce – Director, applied for 200,000 new shares
- Jenni Pilcher – Incoming Director, applied for 125,000 new shares

The Group intends to hold an extraordinary general meeting on 7 September 2020 to obtain approval in accordance with ASX Listing Rule 10.11 to issue the New Shares to the related parties listed above.

The capital raising also included a SPP to eligible shareholders, initially seeking to raise up to \$10 million. Eligible shareholders had the opportunity to apply for up to \$30,000 worth of New Shares. The issue price under the share purchase price was \$0.40, the same as the Placement. The SPP was oversubscribed following strong support from retail shareholders and the Company increased the size of the SPP by \$15.9 million, to a total SPP of \$25.9 million. On 20 August 2020, 64,744,452 new fully paid ordinary shares were issued to shareholders who participated in the SPP.

On 29 July 2020, the Group announced that 5,600,000 convertible notes were converted to securities resulting in the issue of 17,185,723 ordinary shares at a conversion price of \$0.34. On the same day the Group issued to those note holders 17,185,723 options with an exercise price of \$0.46.

On 11 August 2020, the Group increased its holding in Zalm Therapeutics Limited to circa 8.4% of Zalm's issued capital, in exchange for an issue to Zalm of 1,983,890 shares in Cann Group having a value of NZ\$1 million. This share exchange was in accordance with share subscription between the Group and Zalm.

On 11 August 2020, the Group announced that it had issued 178,686 fully paid ordinary share by way of placement to Commonwealth Scientific and Industrial Research Organisation as part payment of invoices for services provided under an umbrella services agreement.

Notes to the financial statements Continued

20. Cash flow information

Reconciliation of net loss after tax to net cash flows from operations:

	2020 \$	2019 \$
Profit/(loss) for the year	(16,937,387)	(10,926,317)
Non-cash flows in profit		
Equity settled trade payables (R&D)	533,475	–
Cost of issuing convertible notes (financing costs)	442,559	–
Vesting of performance rights	167,710	1,232,500
Interest on convertible notes	294,661	–
Reduction in the value of financial assets	190,729	–
Depreciation, Amortisation and loss on sale of assets	2,160,006	1,694,639
Movements in working capital		
(Increase)/decrease in trade receivables and other assets	1,023,794	(1,115,436)
(Increase)/decrease in prepayments	(119,609)	(584,504)
(Decrease)/increase in trade and other payables	1,189,419	3,754,611
(Increase)/decrease in stock on hand and biological assets	(6,563,931)	(1,478,039)
Net cash outflows from operating activities	(17,618,574)	(7,422,546)

21. Capital commitments

The Group has not yet entered into formal contracts with material suppliers and construction contractors for the specialty components of the Mildura Facility construction however it has provided funds to those suppliers and contractors for materials subject to a longer lead time for production and classified as capital work-in-progress (refer Note 9).

22. Financial risk management

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

Liquidity risk

Liquidity risk arises from the possibility that the Group may encounter difficulty in meeting its obligations for its financial liabilities, which at 30 June 2020 were accounts payable with due terms from 0 – 45 days. Subsequent to the end of the reporting period, the Company undertook a capital raising from the market to finance its working capital requirements and near term growth requirements.

Interest rate risk exposure

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

2020	Weighted average effective interest rate %	Floating interest rate \$	Fixed interest rate maturing			Non-interest bearing \$	Total \$
			1 year or less \$	1 to 5 years \$	over 5 years \$		
From 1 July 2019 to 30 June 2020							
Assets:							
Cash and bank balances	0.00	–	–	–	–	1,553,995	1,553,995
Receivables	0.00	–	–	–	–	91,642	91,642
Rental bonds	1.50	–	85,000	–	–	–	85,000
Financial assets at fair value	0.00	–	–	–	–	1,009,841	1,009,841
Total financial assets		–	85,000	–	–	2,655,478	2,740,478
Liabilities:							
Trade and other creditors		–	–	–	–	6,004,950	6,004,950
Lease liability		–	–	–	–	1,127,449	1,127,449
Convertible Notes	9.50	–	–	8,194,661	–	–	8,194,661
Total financial liabilities		–	–	8,194,661	–	7,132,398	15,327,059
Net financial assets (liabilities)		–	85,000	(8,194,661)	–	(4,476,920)	(12,586,581)

2019	Weighted average effective interest rate %	Floating interest rate \$	Fixed interest rate maturing			Non-interest bearing \$	Total \$
			1 year or less \$	1 to 5 years \$	over 5 years \$		
From 1 July 2018 to 30 June 2019							
Assets:							
Cash and bank balances	1.49	9,501,570	27,236,325	–	–	9,650,297	46,388,192
Receivables	0.00	–	–	–	–	1,115,436	1,115,436
Rental bonds	2.19	–	85,000	–	–	–	85,000
Investments	0.00	–	–	–	–	1,200,570	1,200,570
Total financial assets		9,501,570	27,321,325	–	–	11,966,303	48,789,198
Liabilities:							
Trade and other creditors		–	–	–	–	4,815,531	4,815,531
Total financial liabilities		–	–	–	–	4,815,531	4,815,531
Net financial assets (liabilities)		9,501,570	27,321,325	–	–	7,150,772	43,973,667

Notes to the financial statements Continued

Market risk

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

Credit risk

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

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

22. Capital management

The Board of Directors are charged with determining the optimal mix of debt and equity which is suitable for the needs of the Group. For the year ended 30 June 2020 the Group held no material commercial borrowings (except for the convertible notes – which will get converted into equity at the latest by February 2022, if not converted earlier by Noteholders) or material facilities for credit as the board considered that, at this point of time, that funds sourced through equity would be most appropriate. The Group's treasury function reports to the Board periodically with forecast cash flow information that enables the Company to conduct its capital raising activities in an orderly fashion at a dilutive cost to existing shareholders that is appropriate and reasonable.

23. Parent entity disclosures

Financial position	2020 \$	2019 \$
Assets		
Current assets	85,329,907	84,346,795
Non-current assets	1,937,246	1,732,016
Total assets	87,267,153	86,078,811
Liabilities		
Current liabilities	(1,491,718)	(295,232)
Non-current liabilities	(8,194,661)	–
Total liabilities	(9,686,379)	(295,232)
Net assets	77,580,774	85,783,580
Equity		
Issued capital	97,137,199	96,502,220
Reserves	2,143,087	1,975,377
Accumulated losses	(21,699,512)	(12,694,017)
Total equity	77,580,774	85,783,580
Financial performance	2020 \$	2019 \$
Loss for the year	(9,005,495)	(6,490,255)
Other comprehensive income	–	–
Total comprehensive loss	(9,005,495)	(6,490,255)

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

Directors' Declaration

1. The Directors declare that the financial statements and notes set out on pages 30 to 59 are in accordance with the *Corporations Act 2001* and:
 - (a) comply with International Financial Reporting Standards, as stated in Note 2 to the financial statements;
 - (b) comply with Accounting Standards, the Corporations Regulations 2001; and
 - (c) give a true and fair view of the financial position as at 30 June 2020 and of the performance for the year ended 30 June 2020 of the consolidated Group.
2. The Chief Executive Officer and the Chief Financial Officer have each declared that:
 - (a) the financial records of the Company for the year ended 30 June 2020 have been properly maintained in accordance with section 286 of the *Corporations Act 2001*;
 - (b) the financial statements and notes for the year comply with the Accounting Standards; and
 - (c) the financial statements and notes for the year give a true and fair view.
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.

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



Allan McCallum AO
Chairman

Date: 27 August 2020

Independent Auditor's Report



Cann Group Limited

Independent auditor's report to members

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Cann Group Limited (the Company) and its controlled entities (the Group), which comprises the consolidated statement of financial position as at 30 June 2020, the consolidated statement of profit or loss and comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information, and the directors' declaration.

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

- (i) giving a true and fair view of the Group's financial position as at 30 June 2020 and of its financial performance for the year then ended; and
- (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

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

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

Key Audit Matters

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

ACCOUNTANTS & ADVISORS

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Independent Auditor's Report Continued



PROPERTY, PLANT AND EQUIPMENT	
Area of focus	How our audit addressed it
<p>Refer also to notes 2 and 9</p> <p>During the financial year the Group significantly invested in its cultivation capacity through the enhancement of its Southern and Northern growth facilities, through the acquisition of plant and equipment.</p> <p>The Group has also continued its development at a site in Mildura for construction of an additional greenhouse and support buildings. The works have been classified as capital-work-in progress until such time as the facility is completed.</p> <p>Finally, the Group also acquired the Southern facility land and buildings, which was leased in prior periods.</p> <p>The Group's accounting policy for depreciating such property, plant and equipment is over the term of the useful life of the asset, from when it is held ready for use. During the year management has not changes its estimation of useful life of its assets.</p>	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> — Vouching material purchases of property, plant and equipment to support documentation; — Examining the underlying material plant and equipment costs which have been capitalised in the year to determine whether or not such plant and equipment is held and ready for use and therefore subject to depreciation; — Assessing the classification of property, plant and equipment between categories, including capital-work-in progress; — Recalculating the arithmetic accuracy of the depreciation charge expensed in the financial report; and — Reviewing for impairment triggers in relation to the carrying value of property, plant and equipment. <p>We have also assessed the adequacy of disclosures in relation to property, plant and equipment in the Notes to the financial report.</p>
INVENTORY	
Area of focus	How our audit addressed it
<p>Refer also to notes 2 and 8</p> <p>The Group's inventory of \$9.4 million; is significant to the financial report and has increased by \$6.3 million from the prior year.</p> <p>The Groups inventory primary consists of biomass and resin. The biomass is valued at fair value less costs to sell as at the date of harvest and resin is valued at the lower of cost or net realisable value.</p> <p>The valuation of inventory involves judgment by management in particular when determining the value per gram of biomass. In addition, consideration is given to directly attributable costs which can be capitalised to the into cost of inventory.</p>	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> — Performing inventory stock verification procedures in respect of inventory held at the Northern and Southern facilities; — Evaluating management's judgments and assumptions used in calculation cost per gram of biomass; — Verifying that the carrying value of resin inventory has been calculated appropriately including verification of third-party manufacturing costs to supporting documentation; and — Evaluating management's judgments and assumptions used in determining the need for inventory provisions and inventory write downs. <p>We have also assessed the adequacy of disclosures in relation to inventory in the Notes to the financial report.</p>

CONVERTIBLE NOTE	
Area of focus Refer also to notes 2 and 14	How our audit addressed it
<p>The Group issued convertible notes to a range of investors during the current financial year.</p> <p>Accounting for these transactions is complex, as the Group's accounting policy requires the separation at initial recognition, where material, of an embedded derivative, representing the option to convert the note to a variable number of shares, from the underlying host (principal) contract. Both the embedded derivative and host contract are reflected in the value of the convertible note in the financial report.</p> <p>The accurate recording of the transactions associated with the convertible notes is dependent on the following:</p> <ul style="list-style-type: none"> — The share price as at the date of the issue of the convertible notes; — Inputs associated with the features of the notes (interest rate, maturity, security); and — Share price volatility priced into the embedded derivative. 	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> — understanding the terms of the convertible note agreements, including an assessment of classification between current and non-current for the underlying host contract and a determination that the instrument meets the definition of a financial liability under accounting standards; — verifying the assumptions applied to the value of the embedded derivative are appropriate; — Performed a cross check against our own findings in comparison to the independent valuation commissioned by management; and — Verifying that shares issued in respect of convertible notes converted prior to 30 June 2020 has been appropriately treated. <p>We have also assessed the adequacy of disclosures in relation to the convertible notes in the Notes to the financial report.</p>

Other Information

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2020 but does not include the financial report and the auditor's report thereon.

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

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

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

Responsibilities of the Directors for the Financial Report

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

Independent Auditor's Report Continued



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

Auditor's Responsibilities for the Audit of the Financial Report

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

A further description of our responsibilities for the audit of these financial statements is located at the Auditing and Assurance Standards Board website at:

http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf

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

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in the directors' report accompanying these financial statements for the year ended 30 June 2020.

In our opinion, the Remuneration Report of Cann Group Limited, for the year ended 30 June 2020, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

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

William Buck

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

Alex Finnis

A. A. Finnis
Director

Melbourne, 27 August 2020

Shareholder information

Equity security holders

As at 12 August 2020 the Company had 195,194,561 ordinary shares on issue. Further details of the Company's equity securities are as follows:

Largest holders

Rank	Name	12 Aug 2020	%IC
1	AURORA CANNABIS INC	31,956,347	16.37%
2	FLAG CAPITAL PTY LTD	6,880,953	3.53%
3	MULLACAM PTY LTD <ATF THE MCCALLUM FAMILY SUPER FUND>/ALLAN MCCALLUM	5,580,000	2.86%
4	SUPERNOVA FUND PTY LTD <AM & EM STELLA BENEFITA/C>	4,602,696	2.36%
5	NATIONAL NOMINEES LIMITED	4,368,538	2.24%
6	MR PHILIP JACOBSEN & MRS MAXINE JACOBSEN	4,094,518	2.10%
7	HARDMAIL PTY LTD	2,056,852	1.05%
8	GRAPEFULL PTY LTD/DOUG & ANN RATHBONE	2,331,185	1.19%
9	ZALM THERAPEUTICS	1,983,890	1.02%
10	J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	1,836,700	0.94%
11	EGEA PTY LTD/G PEARCE & B PEARCE	1,554,195	0.80%
12	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	1,342,227	0.69%
13	MR RAYMOND THOMAS HOBSON & MRS RHONDA ELLEN HOBSON	1,312,500	0.67%
14	AUSTRALIAN BUSINESSPOINT PTY LTD	1,250,000	0.64%
15	SAMADA STREET NOMINEES PTY LTD	1,233,118	0.63%
16	CHEVRON CORPORATION PTY LTD	1,227,385	0.63%
17	COMMONWEALTH SCIENTIFIC AND INDUSTRIAL RESEARCH ORGANISATION	1,212,938	0.62%
18	CITICORP NOMINEES PTY LIMITED	1,167,441	0.60%
19	BNP PARIBAS NOMINEES PTY LTD	1,164,158	0.60%
20	ESTELVILLE NOMINEES PROPRIETARY LIMITED	1,150,000	0.59%
	Total	78,305,641	40.12%
	Balance of register	116,888,920	59.88%
	Grand total	195,194,561	100.00%

Shareholder information Continued

Substantial shareholders

The following table shows the substantial holders as notified to the Company in substantial holding notices as at 12 August 2020.

Name	Noted Date of Change	Number of Equity Securities	%IC
AURORA CANNABIS INC	25/01/2018	31,956,347	16.37%

Distribution of equity securityholders

Holdings distribution

Range	No. of holders	Securities
100,001 and Over	158	112,912,557
10,001 to 100,000	1,715	45,831,719
5,001 to 10,000	1,712	13,229,405
1,001 to 5,000	7,369	18,207,794
1 to 1,000	9,636	5,013,086
Total	20,590	195,194,561

Unmarketable parcels

The number of investors holding less than a marketable parcel of 1075 securities (\$0.465 on 12 August 2020) is 9,941 and they hold 5,330,465 securities.

Unquoted equity securities

The number of unquoted equity securities on issue as at 12 August 2020 are as follows:

Unquoted equity securities	No. of holders	Number on issue
Unlisted Performance rights Class C	1	1,000,000
Unlisted convertible notes – conversion price of \$0.34 expiring on 10 February 2022	1	2,300,000
Unlisted options – exercisable at \$0.945, expire on 31 March 2022	3	147,500
Unlisted options – exercisable at \$0.46, expire on 31 March 2022	10	17,185,723

Holder details of unquote equity securities

The convertible noteholder that holds more than 20% of a given class of unquoted equity securities as at 12 August 2020 is as follows:

Unquoted equity securities	Name of holder	Number on issue
Unlisted Convertible Notes – conversion price of \$0.34 expiring on 10 February 2022	Flag Capital Pty Ltd	2,300,000

Voting rights

The voting rights attaching to each ordinary share are that holders of ordinary shares have the right to vote at every general meeting of the Company. At a general meeting every holder of ordinary shares present in person or by proxy has, on a poll, one vote for each ordinary share held.

There are no voting rights attached to any of the unquoted equity securities.

Securities exchange

The Company is listed on the Australian Securities Exchange. The home exchange is Melbourne.

Other information

Cann Group Limited, incorporated and domiciled in Australia, is a publicly listed company limited by shares.

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Corporate directory

Company

Cann Group Limited

ACN 603 949 739

Registered office

Walter and Eliza Hall Institute of Medical Research

4 Research Avenue
La Trobe University, Victoria, 3083

Phone: 03 9095 7088

Email: contact@canngrouponlimited.com

Directors

Allan McCallum AO
Philip Jacobsen
Doug Rathbone AM
Geoff Pearce

Company secretary

Geraldine Farrell

CEO

Peter Crock

Share registry

Link Market Services Limited

Tower 4, 727 Collins Street,
Melbourne, Victoria, 3008

Ph: 1300 554 474

Auditors

William Buck

Level 20, 181 William Street
Melbourne, Victoria, 3000

Ph: 03 9824 8555

Stock exchange

(ASX:CAN)

CANN
GROUP LIMITED

canngrouponlimited.com