

# Half-Year Financial Report

for the half year ended 31 December 2018

Lodged with the ASX under Listing Rule 4.2A

This information should be read in conjunction with the 30 June 2018 Annual Report

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## CORPORATE INFORMATION

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This Half-Year Financial Report is of Cann Group Limited (the **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 (formerly Cann Investments Pty Ltd) (incorporated and domiciled in Victoria, Australia) (together, the **Group**). Unless otherwise stated, all amounts are presented in \$AUD.

A description of the company's operations and of its principal activities is included in the review of operations and activities in the Directors' Report on pages 2 to 4. The directors' report is not part of the financial statements.

## CORPORATE DIRECTORY

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### Cann Group Limited

ABN 25 603 949 739

### DIRECTORS

**Mr Allan McCallum** (Chairman)

**Mr Philip Jacobsen** (Deputy Chairman)

**Mr Geoffrey Pearce** (Non-executive Director)

**Mr Douglas Rathbone** (Non-executive Director)

**Mr Neil Belot** (Non-executive Director)

### CHIEF EXECUTIVE OFFICER

Mr Peter Crock

### SECRETARY

Mr Richard Baker

### REGISTERED OFFICE

4 Research Avenue  
La Trobe University  
Bundoora Vic 3086

### AUDITORS

William Buck Audit (VIC) Pty Ltd  
Level 20, 181 William Street  
Melbourne Vic 3000

### LAWYERS

William Ross – Lawyers and Advisors  
Level 27, 101 Collins Street  
Melbourne Vic 3000

### SHARE REGISTRY

Link Market Services Limited  
Tower 4, 727 Collins Street,  
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Ph: 1300 554 474

### CONTACT INFORMATION

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Web Site: [www.canngrouponlimited.com](http://www.canngrouponlimited.com)



A full-page background image showing a silhouette of a person walking a dog on a beach at sunset. The sun is low on the horizon, creating a warm orange and yellow glow. The sky transitions from orange to a deep blue. The person is on the left, walking towards the right, and the dog is in the center, also walking right. The ocean waves are visible in the background.

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## ...our product is quality of life

Cann Group aims to improve the quality of life for people with chronic medical conditions that can be more effectively managed or treated with medicinal cannabis.

We take a science-based approach to developing safe, innovative and effective treatments that seek to benefit each patient's personal experience of wellness.

# DIRECTORS' REPORT

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The Directors of Cann Group Limited submit herewith the Financial Statements of the Company for the half year ended 31 December 2018.

## DIRECTORS

Mr Allan McCallum (Chairman)  
Mr Philip Jacobsen (Deputy Chairman)  
Mr Geoff Pearce (Non-executive Director)  
Mr Doug Rathbone (Non-executive Director)  
Mr Neil Belot (Non-executive Director) (appointed 28 February 2018)

## PRINCIPAL ACTIVITIES

The principal activities of the Group during the period consisted of cultivating cannabis for medicinal and research purposes and continuing to develop its cultivation technology structure to cultivate and process cannabis and the cultivation of cannabis for manufacturing into medicinal cannabis products.

## OPERATING RESULTS

The company incurred an operating loss of \$4,898,171 after income tax for the half year ended 31 December 2018 (2017: \$1,462,561)

## REVIEW OF OPERATIONS

Significant developments have occurred over the last six months since Cann Group Limited ("the Company") issued its Annual Report to Shareholders including:

### Commercial activity

During the half-year, Cann supplied the first Australian patients with Aurora Cannabis Inc (Aurora) cannabis oil through the Therapeutic Goods Administration's (TGA) Special Access Scheme. Cann acted as sponsor to import the first products from its strategic partner and major shareholder, with the product supplied being 'Aurora 1:1 Drops' comprising an equal ratio of Tetrahydrocannabinol (THC) and Cannabidiol (CBD).

Cann will import additional supplies of cannabis oil from Aurora in several different formulations. Patients will have access to the medicinal cannabis oils after being approved for treatment through the TGA's Special Access Scheme or Authorised Prescriber Scheme.

Cann and IDT Australia Limited (ASX: IDT) executed a manufacturing agreement that will see IDT provide manufacturing support in relation to medicinal cannabis-based product formulations intended for supply to patients in Australia and overseas. Work with IDT will continue with a targeted commissioning of the custom GMP manufacturing line in the first quarter of 2019.

Cann also secured a contract with the Victorian Department of Health and Human Services (DHHS), through its Office of Medicinal Cannabis (OMC), for the supply of cannabis plant extract (resin). The agreement covers the supply of resin from April 2019 through to 30 June 2020, with commercial terms of the agreement to remain confidential.

# DIRECTORS' REPORT (CONTINUED)

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## **Tullamarine Facility**

Cann Group's major expansion program, Project Tullamarine, continues to evolve with the final design phase recently being completed by Aurora Larssen Projects (ALPS) for a state-of-the-art cultivation space, laboratories and a full GMP manufacturing facility. This allows Cann to complete the tender and final selection process with various contractors and suppliers to be engaged. The company remains on track to commence construction on the facility in the first quarter of 2019, while Cann continues discussions with several parties in relation to potential offtake agreements. The Tullamarine facility is expected to be fully operational by the third quarter of 2020, with capacity to produce 40,000-50,000 Kg of dry flower equivalent (indicative – variety dependant).

## **Research and development**

During the half-year, Cann Group signed a broad, three-year agreement with the Commonwealth Scientific and Industrial Research Organisation (CSIRO) to extend its research and development collaboration. The agreement enables Cann to investigate numerous opportunities across medicinal cannabis technologies. Cann will work with multiple CSIRO business units under the umbrella agreement, which will see technology development activities undertaken for use in the commercial manufacture and sale of medicinal cannabis products. As set out in the agreement, all resulting intellectual property will be owned by Cann.

Cann signed a Memorandum of Understanding with Agriculture Victoria to undertake further medicinal cannabis research. Cann and Agriculture Victoria outlined several common areas of interest which will be pursued under a set of Research Projects. Areas of focus will include activities relating to medicinal cannabis cultivation, medicinal cannabis extraction, cannabis strain genome analysis and strain identification, accelerated precision breeding and development of novel and designer medicinal cannabis strains that will add to Cann's intellectual property portfolio.

## **Corporate and Registered Office**

Cann relocated its corporate headquarters and registered office to the Walter and Eliza Hall Institute of Medical Research, 4 Research Avenue, La Trobe University, Bundoora, Victoria 3086.

## **SUBSEQUENT EVENTS**

There were no matters or circumstances that have arisen since the end of the half-year which significantly affected or may significantly affect the operation of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

# DIRECTORS' REPORT (CONTINUED)

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## FUTURE DEVELOPMENTS

Other than matters referred to elsewhere in this report, further information as to the likely developments in the operations of the Company have not been included in this report because the directors believe it would be likely to result in unreasonable prejudice to the Company. Likely developments of the operations of the Company may be influenced by the corporate fundraising activities of the Company.

## DIVIDENDS

No dividend has been proposed or paid.

## AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration is attached to this Directors' report on page 5.

Signed in accordance with a resolution of the directors



Allan McCallum  
**Chairman**

Date: 18 February 2019

# 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 period ended 31 December 2018 there have been:

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

William Buck

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

N. S. Benbow

**N. S. Benbow**  
Director

Dated this 18<sup>th</sup> day of February, 2019

### CHARTERED ACCOUNTANTS & ADVISORS

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# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE HALF-YEAR ENDED 31 DECEMBER 2018

	Note	31 December 2018 \$	31 December 2017 \$
Research and development credits received		92,495	44,102
Interest		892,661	103,948
Other income		3,010	649
Administration and corporate costs		(3,495,599)	(1,346,621)
Pre-production costs		(1,717,219)	(211,561)
Research & development		(524,908)	(51,672)
Fair value adjustment of biological assets		(137,314)	–
<b>Loss before transaction costs, finance costs and income tax</b>		<b>(4,886,874)</b>	<b>(1,461,155)</b>
Finance costs		(11,297)	(1,406)
<b>Loss before income tax expense</b>		<b>(4,898,171)</b>	<b>(1,462,561)</b>
Income tax expense		–	–
<b>Loss attributable to members of the Group</b>		<b>(4,898,171)</b>	<b>(1,462,561)</b>
Other comprehensive income		–	–
<b>Total comprehensive loss attributable to members of the Group</b>		<b>(4,898,171)</b>	<b>(1,462,561)</b>
Basic and diluted loss per share (cents)	2	3.51	1.32

The accompanying notes form part of these statements.



# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2018

	Note	31 December 2018 \$	30 June 2018 \$
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents		47,557,008	49,566,890
Investments in term deposits		25,000,000	30,082,849
Prepayments		118,557	137,693
Inventories		2,636,827	1,405,286
Biological assets		361,152	205,301
<b>TOTAL CURRENT ASSETS</b>		<b>75,673,544</b>	<b>81,398,019</b>
<b>NON-CURRENT ASSETS</b>			
Plant and equipment		7,622,421	5,232,518
Intangible assets		127,086	84,971
Rental bonds		85,000	85,000
<b>TOTAL NON-CURRENT ASSETS</b>		<b>7,834,507</b>	<b>5,402,489</b>
<b>TOTAL ASSETS</b>		<b>83,508,051</b>	<b>86,800,508</b>
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Unsecured trade and other payables		1,510,766	907,107
Lease liability		4,198	4,198
<b>TOTAL CURRENT LIABILITIES</b>		<b>1,514,963</b>	<b>911,305</b>
<b>NON-CURRENT LIABILITIES</b>			
Lease liability		14,270	16,369
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>14,270</b>	<b>16,369</b>
<b>TOTAL LIABILITIES</b>		<b>1,529,234</b>	<b>927,674</b>
<b>NET ASSETS</b>		<b>81,978,817</b>	<b>85,872,834</b>
<b>EQUITY</b>			
Issued capital	3	95,461,220	95,081,758
Performance rights reserve		1,668,568	1,043,877
Accumulated losses		(15,150,971)	(10,252,801)
<b>TOTAL EQUITY</b>		<b>81,978,817</b>	<b>85,872,834</b>

The accompanying notes form part of these statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE HALF YEAR ENDED 31 DECEMBER 2018

	Issued capital \$	Performance Rights reserve \$	Accumulated losses \$	Total equity \$
<b>Balance at 1 July 2018</b>	<b>95,081,758</b>	<b>1,043,877</b>	<b>(10,252,801)</b>	<b>85,872,834</b>
Issue of shares	379,462	–	–	379,462
Vesting of performance rights	–	624,692	–	624,692
<b>Transactions with owners in their capacity as owners</b>	<b>379,462</b>	<b>624,692</b>	<b>–</b>	<b>1,004,154</b>
Comprehensive loss for the period ended 31 December 2018	–	–	(4,898,171)	(4,898,171)
<b>Balance at 31 December 2018</b>	<b>95,461,220</b>	<b>1,668,569</b>	<b>(15,150,971)</b>	<b>81,978,817</b>

	Issued capital \$	Performance Rights reserve \$	Accumulated losses \$	Total equity \$
<b>Balance at 1 July 2017</b>	<b>20,187,092</b>	<b>–</b>	<b>(5,526,943)</b>	<b>14,660,149</b>
Issue of shares	58,700,000	–	–	58,700,000
Net costs of issuing shares	(2,492,060)	–	–	(2,492,060)
Vesting of performance rights	–	168,445	–	168,445
<b>Transactions with owners in their capacity as owners</b>	<b>56,207,940</b>	<b>168,445</b>	<b>–</b>	<b>56,376,385</b>
Comprehensive loss for the half-year ended 31 December 2017	–	–	(1,462,561)	(1,462,561)
<b>Balance at 31 December 2017</b>	<b>76,395,032</b>	<b>168,445</b>	<b>(6,989,504)</b>	<b>69,573,973</b>

The accompanying notes form part of these statements.

# CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE HALF YEAR ENDED 31 DECEMBER 2018

	Note	31 December 2018 \$	31 December 2017 \$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers		2,550	–
Payments to suppliers and employees		(5,128,323)	(1,112,055)
Proceeds from the receipt of R&D claims		92,495	44,102
Interest receipted		892,661	103,948
Other income		460	649
<b>Net cash flows used in operating activities</b>		<b>(4,140,157)</b>	<b>(963,356)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Acquisition of plant and equipment		(2,952,575)	(2,830,065)
Proceeds realised from the maturity of term deposits into cash		5,082,849	–
Payments for rental deposits		–	(12,952)
<b>Net cash flows used in investing activities</b>		<b>2,130,275</b>	<b>(2,843,017)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issues of shares		–	58,700,000
Costs of issuing shares		–	(2,492,060)
<b>Net cash flows provided by financing activities</b>		<b>–</b>	<b>56,207,940</b>
Net increase / (decrease) in cash held		(2,009,882)	52,401,567
Cash and cash equivalents at the beginning of the period		49,566,890	14,113,964
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>		<b>47,557,008</b>	<b>66,515,531</b>

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 (the Company) and its subsidiaries, including Cannproducts Pty Ltd, Cannoperations Pty Ltd, Cann IP Pty Ltd (formerly Anslinger Holdings Pty Ltd) and Botanitech Pty Ltd (formerly Cann Investments 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 half-year ended 31 December 2018. 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.

### (a) Basis of preparation

The attached financial statements and notes comply with the Corporations Act 2001, Australian Accounting Standard AASB 134 'Interim Financial Reporting', the Corporations Regulations 2001 and other mandatory professional reporting requirements.

This financial report does not include all of the information required for full annual financial statements. Accordingly, this report is to be read in conjunction with the annual financial report for the year ended 30 June 2018 and any public announcements made by Cann Group Limited and its controlled entities during the half-year in accordance with continuous disclosure requirements arising under ASX Listing Rule 3.1 and the *Corporations Act 2001*.

These interim financial statements were authorised for issue by the Board of Directors on the date of signing the accompanying Directors' Declaration.

### (b) Accounting Policies

The same accounting policies and methods of computation have been followed in this interim financial report as were applied in the most recent annual financial statements.

## 2. 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:

	Half-year ended 31 December 2018 \$	Half-year ended 31 December 2017 \$
Net loss attributable to ordinary equity holders (used in calculating basic and diluted EPS)	(4,898,171)	(1,462,561)
Weighted average number of ordinary shares for the purpose of earnings per share	139,583,100	110,777,900

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)

## 3. ISSUED CAPITAL

	Half-year ended 31 December 2018		Half-year ended 31 December 2017	
	No	\$	No	\$
As at 1 July	139,546,632	95,081,758	108,353,335	20,187,092
Shares issued during half-year*	157,616	379,462	23,480,000	58,700,000
Net costs of issuing shares	—	—	—	(2,492,060)
As at 31 December	139,704,248	95,461,220	131,833,335	76,395,032

\* On 7 September 2018 the Company allotted 50,000 Fully Paid Ordinary Shares to an entity related to Dr Sud Agarwal as payment for consulting services provided.

\* On 21 December 2018 the Company allotted 16,452 Fully Paid Ordinary Shares to employees pursuant to the Employee Share Purchase Plan.

\* On 24 December 2018 the Company allotted 91,164 Fully Paid Ordinary Shares to the Commonwealth Scientific and Industrial Research Organisation (CSIRO) as payment for research consulting services provided pursuant to the Research Services Umbrella Agreement between the Company and CSIRO.

## 4. CONTINGENT LIABILITIES

The Company has signed a Heads of Agreement with Australia Pacific Airports (Melbourne) Pty Ltd ("APAM") to enter into a lease of premises to develop a cultivation and manufacturing facility on land owned by APAM and pursuant to the Heads of Agreement the Company has also signed a Deed of Underwriting with APAM to underwrite the following:

- APAM's detailed design documentation costs and costs associated with planning, environment and building approvals, capped at \$470,000 (exclusive of GST); and
- APAM's legal and external project management costs, capped at \$295,000 (exclusive of GST).

The Company is liable for set-up costs included by the Commonwealth Scientific and Industrial Research Organisation (CSIRO) pertaining to the Research Services Umbrella Agreement from the commencement date of that Agreement, being 1 October 2018. The set-up costs liability reduces by \$14,583 each month from the commencement date and at 31 December 2018 the liability was \$306,251. The set-up cost liability is contingent and is only payable in the event that the Company terminates the Agreement within 24 months on the commencement date.

The Company has two bank guarantees totalling \$85,000 for the operating and corporate premises leases of the company's three premises.

With the exception of the Deed of Underwriting, set-up costs (CSIRO) and bank guarantees, the Company currently has no contingent liabilities or commitments at the date of signing this report.

## 5. SUBSEQUENT EVENTS

There were no matters or circumstances that have arisen since the end of the half-year which significantly affected or may significantly affect the operation of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

## 6. SEGMENT REPORTING

The Company operates in one industry being cultivation of cannabis and cannabis related products within Australia.



# DIRECTORS' DECLARATION

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1. The Directors declare that the financial statements and notes set out on pages 6 to 11 are in accordance with the *Corporations Act 2001* and:
  - a. comply with International Financial Reporting Standards, as stated in Note 1 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 31 December 2018 and of the performance for the half-year ended 31 December 2018 of the consolidated group.
2. The Chief Executive Officer and Company Secretary have each declared that:
  - a. the financial records of the Company for the half-year ended 31 December 2018 have been properly maintained in accordance with section 286 of the *Corporations Act 2001*;
  - b. the financial statements and notes for the half-year comply with the Accounting Standards; and
  - c. the financial statements and notes for the half-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.

On behalf of the Board



Mr Allan McCallum  
**Chairman**

Date: 18 February 2019

# INDEPENDENT AUDITOR'S REVIEW REPORT



## Cann Group Limited

### Independent auditor's review report to members

## Report on the Review of the Half-Year Financial Report

### Conclusion

We have reviewed the accompanying half-year financial report of Cann Group Limited (the company) and the entities it controlled at the half-year's end or from time to time during the half year (the consolidated entity), which comprises the consolidated statement of financial position as at 31 December 2018, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated condensed statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Cann Group Limited is not in accordance with the Corporations Act 2001 including:

- a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2018 and of its performance for the half year ended on that date; and
- b) complying with Australian Accounting Standard 134 Interim Financial Reporting and the Corporations Regulations 2001.

### Responsibilities of the Directors for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year 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 half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

### Auditor's Responsibilities for the Review of the Half-Year Financial Report

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the Corporations Act 2001 including:

- giving a true and fair view of the consolidated entity's financial position as at 31 December 2018 and its performance for the half-year ended on that date; and
- complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001.

As the auditor of Cann Group Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

#### CHARTERED ACCOUNTANTS & ADVISORS

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# INDEPENDENT AUDITOR'S REVIEW REPORT (CONTINUED)



A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## **Independence**

In conducting our review, we have complied with the independence requirements of the Corporations Act 2001.

*William Buck*

**William Buck Audit (Vic) Pty Ltd**

ABN 59 116 151 136

*N.S. Benbow*

**N.S. Benbow**

Director

Dated this 18<sup>th</sup> day of February, 2019



**CANN**  
**GROUP LIMITED**

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

