



17 February 2022

The Manager, Listings
ASX Market Announcements Office
ASX Limited
Level 4, North Tower
Rialto Building
525 Collins Street
Melbourne VIC 3000

Dear Sir

Cann Group Limited (ASX:CAN) – Market Release - Results for the Half-Year ended 31 December 2021

We attach the Appendix 4D – “Half-year Report” for Cann Group Limited, incorporating the consolidated financial report and the Directors’ Report, for release to the market in accordance with Listing Rule 4.2A.

Yours faithfully

Geraldine Farrell
Company Secretary
Cann Group Limited

APPENDIX 4D | HALF YEAR REPORT

1. Company details

Name of entity	Cann Group Limited
ABN	25 603 949 739
Reporting period	For the half year ended 31 December 2021
Previous period	For the half year ended 31 December 2020

2. Results for announcement to the market

				\$'000
Revenues from ordinary activities	up	193.4%	to	3,172
Loss from ordinary activities after tax	down	11.9%	to	(8,279)
Loss for the half year	down	11.9%	to	(8,279)

	31 December 2021 Cents	31 December 2020 Cents
Basic earnings per share	(2.77)	(4.98)
Diluted earnings per share	(2.77)	(4.98)

Dividends

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

Comments

The loss for the Group after providing for income tax amounted to \$8,279,000 (31 December 2020: \$9,398,000).

3. Net tangible assets

	Reporting period Cents	Reporting period Cents
Net tangible assets per ordinary security	28.89	32.33

4. Control gained over entities

Not applicable.

5. Loss of control over entities

Not applicable.

6. Dividends

Current period

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

Previous period

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

7. Dividend reinvestment plans

Not applicable.

8. Details of associates and joint venture entities

Not applicable.

9. Foreign entities

Details of origin of accounting standards used in compiling the report:

Not applicable.

10. Audit qualification or review

Details of audit/review dispute or qualification:

The financial statements were subject to a review by the auditors and the review report is attached as part of the half year report.

11. Attachments

Details of attachments:

The half year report of Cann Group Limited for the period ended 31 December 2021 is attached.

12. Signed



Allan McCallum, AO

Chairman
Melbourne

Date: 17 February 2022



Cann Group Limited

ABN 25 603 949 739

HALF YEAR FINANCIAL REPORT

31 DECEMBER 2021

CANN
GROUP LIMITED

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General information

This Half Year Financial Report is of Cann Group Limited (the Group) and its subsidiaries, including Cannproducts Pty Ltd, Cannoperations Pty Ltd, Cann IP Pty Ltd, Botanitech Pty Ltd, Satipharm Europe, Satipharm Limited, Satipharm AG, Satipharm Australia Pty Ltd, Satipharm Canada Limited and Phytotech Therapeutics Ltd (together, the Consolidated Group). These financial statements are for the half year ended 31 December 2021. Unless otherwise stated, all amounts are presented in \$AUD'000.

A description of the Group's operations and of its principal activities is included in the review of operations and activities in the Directors' Report on pages 2 to 5. The Directors' Report is not part of the financial statements.

CORPORATE DIRECTORY

Directors

Mr Allan McCallum, AO (Chairman)
 Mr Geoff Pearce (Non-executive Director)
 Mr Doug Rathbone, AM (Non-executive Director)
 Ms Jenni Pilcher (Non-executive Director)
 Mr John Sharman (Non-executive Director)
 Mr Philip Jacobsen (Deputy Chairman) *resigned 10 November 2021*

Chief Executive Office

Mr Peter Crock

Company secretary

Ms Geraldine Farrell

Registered office

Walter and Eliza Hall Institute of
 Medical Research
 Latrobe University
 4 Research Avenue
 Bundoora, Victoria 3083

Contact information

Phone: +61 3 9095 7088
 Email: contact@canngrouponlimited.com
 Website: www.canngrouponlimited.com

Auditor

William Buck
 Level 20, 181 William Street
 Melbourne, Victoria 3000

Share register

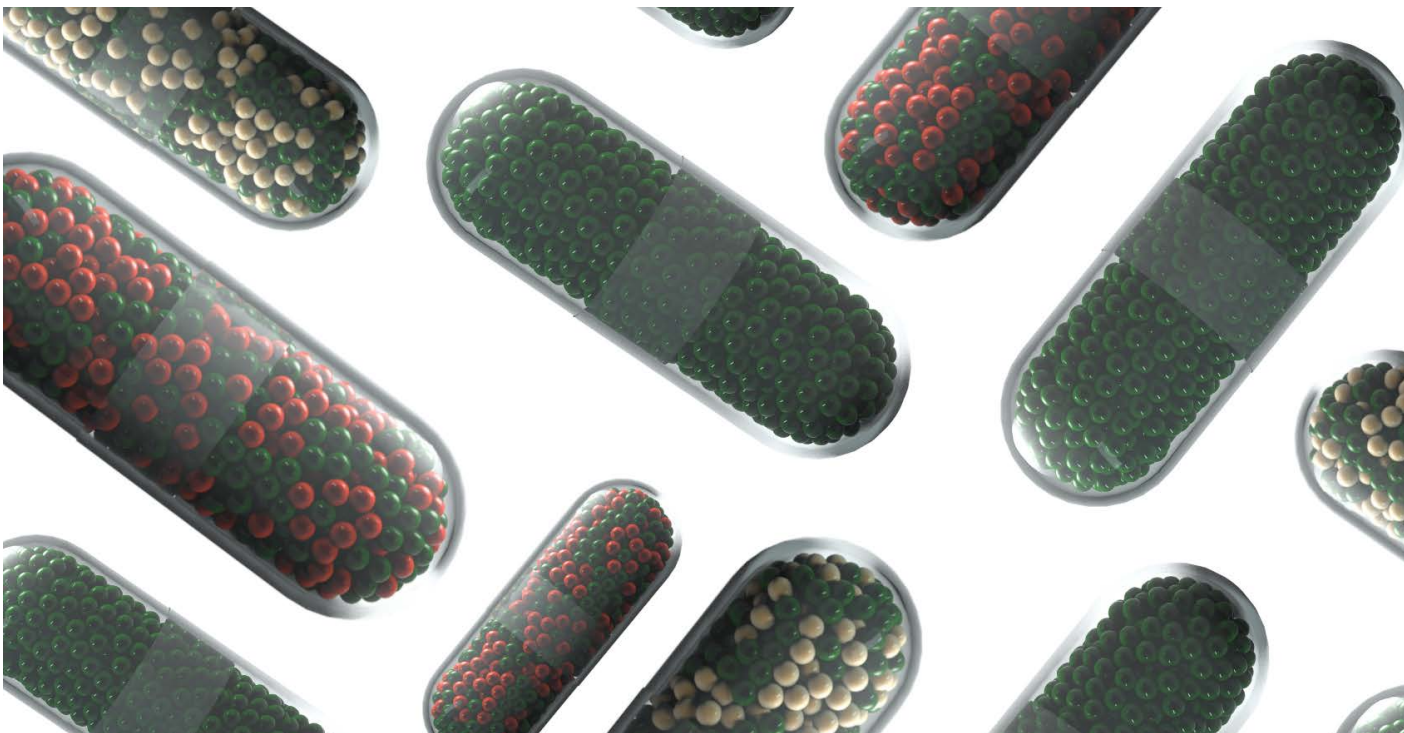
Link Market Services Limited
 Tower 4, 727 Collins Street
 Melbourne, Victoria 3008
 Phone: 1300 554 474

Bankers

National Australia Bank
 395 Bourke Street
 Melbourne, Victoria 3000

Stock exchange listing

Cann Group Limited shares are listed on the Australian Securities Exchange (ASX code: CAN)



DIRECTORS' REPORT

The Directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'Group') consisting of Cann Group Limited (referred to hereafter as the 'Company' or 'parent entity') and the entities it controlled at the end of, or during, the half year ended 31 December 2021.

Directors

The names and details of the Directors in the office during the half year period are as follows. Directors have been in office for the entire half year unless otherwise stated.

Mr Allan McCallum, AO (Chairman)

Mr Geoff Pearce (Non-executive Director)

Mr Doug Rathbone, AM (Non-executive Director)

Ms Jenni Pilcher (Non-executive Director)

Mr John Sharman (Non-executive Director)

Mr Philip Jacobsen (Deputy Chairman) *resigned 10 November 2021*

Principal activities

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

Operating results

The loss for the Group after providing for income tax amounted to \$8.28 million (31 December 2020: \$9.40 million).

The Group's basic and diluted loss per share is 2.77 cents per share (2020 loss per share: 4.98 cents per share). The Weighted Average number of shares used to calculate the basic and diluted earnings per share is 298,542,295 (2020: 188,826,466).

The net assets of the Group are \$102.53 million as at 31 December 2021 (30 June 2021: \$91.87 million).

Review of operations

Production and sales

The Group achieved significant increases in sales and production during the half year, compared with the prior comparative period. Most of this improvement was seen in domestic sales where Cann's B2B model gained significant traction, with new clients entering into supply agreements, and several existing clients providing repeat orders. Cann now has 19 active B2B accounts. The supply of product has come from Cann's Southern facility, both in new harvests and from existing product.

The Southern facility underwent a substantial upgrade during the half year which now allows Cann to produce Active Pharmaceutical Ingredient (API) and medicinal cannabis products (including dried flower) under cGMP conditions. The upgraded facility was recently inspected and licenced by the TGA for GMP standards. This opens up an important revenue pathway for Cann.

International interest in medicinal cannabis remains strong and sales through Cann's European distribution partner, iuvo Therapeutics, remain steady.

Mildura manufacturing facility

Positive progress was made on Cann's major project at Mildura during the half year. The construction process is nearly complete for Cann's state-of-the-art facility, and commissioning of the various components of the facility is either finalised or underway. Both the Office of Drug Control (ODC) and the Therapeutic Goods Administration (TGA) have inspected the site for applications for licences and permits. Once licences and permits are issued, Cann will be able to move mother plants onsite and commence the process of propagation. The mother plants and several other cultivars are currently growing in Cann's Southern facility in anticipation of transfer to Mildura.

With the Mildura facility, Cann now has fully integrated manufacturing capabilities, covering all of the stages required to produce finished medicines. The laboratory, manufacturing and extraction suites in the facility have all been commissioned and are either already in use (laboratory and manufacturing) or ready for use (extraction). The growing rooms are the last piece to be completed and once finished, inspected and licenced, will be able to receive the first cuttings from the mother plants.

2022 is shaping up to be a transitional year for the Group as Cann opens the Mildura facility and steadily builds towards the capacity of 12,500kg of dried flower per annum.

Research and Development

S3 Product Registration

Cann is progressing with an S3 product registration program of its proprietary Satipharm cannabidiol (CBD) capsules in Australia. An S3 registration would allow for pharmacy only, over-the-counter sales of Satipharm CBD products, consistent with the Commonwealth Government's announcement in February 2021. Cann has appointed a Clinical Research Organisation (CRO) to assist in the clinical evaluation and registration process. Cann expects the proprietary Satipharm capsule technology will prove to be an important point of differentiation when CBD products are registered and available through pharmacies. During the reporting period Cann applied for ethics committee approval to conduct a phase 3 clinical trial to examine the efficacy of Cann's proprietary CBD Satipharm capsule for the short-term treatment of sleep disturbances and quality of life outcomes. Having obtained that approval in February, Cann will be commencing recruitment for that trial in March 2022, with results anticipated for release later in 2022 in line with Cann's S3 registration program.

Funding

On 7 September 2021, Cann announced that, following shareholder approval received at an Extraordinary General Meeting, it would be proceeding with a Share Purchase Plan (SPP) to raise up to \$10 million. The SPP offer closed on 15 October 2021 with \$8.69 million raised. The SPP was in addition to the Company's successful \$10 million placement announced to the market on 26 July 2021 (Placement) and, together with the Placement funds, completed the total capital raising of \$18.69 million. The proceeds from the capital raising are being used to invest in initiatives which are expected to deliver substantial cost savings as Cann moves to large-scale production with the commissioning of its new Mildura facility. Funding is also being used to expedite and strengthen Cann's in-house extraction, laboratory and manufacturing capabilities, which are expected to de-risk Cann's supply chain and lower cost of goods sold by reducing the Company's reliance on third party manufacturers and service providers.

Board and management changes

Mr Philip Jacobsen retired from the Board as a non-executive Director in November 2021. Philip started with Cann in 2014 and continues to be very supportive of Cann.

On 1 September 2021, Ms Deborah Ambrosini was appointed to the role of Chief Financial Officer (CFO). Deborah brings significant experience as a CFO with ASX listed companies.

Significant changes in the state of affairs
Share issued on the exercise of performance rights

There were no ordinary shares of Cann issued on the exercise of performance rights during the period ended 31 December 2021 and up to the date of this report.

Dividends

No dividend has been proposed or paid during the half year period ended 31 December 2021.

Rounding

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

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out immediately after this Directors' report.

This report is made in accordance with a resolution of Directors, pursuant to section 306(3)(a) of the Corporations Act 2001.

On behalf of the Directors



Allan McCallum, AO
Chairman
17 February 2022



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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 half-year ended 31 December 2021 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

A. A. Finnis

A. A. Finnis
Director

Melbourne, 17 February 2022

ACCOUNTANTS & ADVISORS

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William Buck is an association of firms, each trading under the name of William Buck across Australia and New Zealand with affiliated offices worldwide.
Liability limited by a scheme approved under Professional Standards Legislation.
(WB015_2007)



A close-up photograph of a cannabis plant with green serrated leaves and developing buds. The background is a blurred grow room with several rectangular LED light fixtures emitting a purple and blue glow.

HALF YEAR FINANCIAL REPORT

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the half year ended 31 December 2021

	Note	31 December 2021 \$'000	31 December 2020 \$'000
Revenue		3,172	1,081
Other income	3	2,970	4,150
Expenses			
Administration and corporate costs	4	(11,545)	(8,518)
Research and development costs		(947)	(1,074)
Depreciation and amortisation expense		(1,277)	(1,305)
Total expenses		(13,769)	(10,897)
Loss before finance costs and income tax expense		(7,627)	(5,666)
Finance costs	9	(652)	(3,732)
Loss before income tax expense		(8,279)	(9,398)
Income tax expense		-	-
Loss after income tax expense for the half year		(8,279)	(9,398)
Other comprehensive loss			
<i>Items that may not be reclassified subsequently to profit or loss</i>			
Movement in foreign currency translation reserve		(42)	-
Other comprehensive loss for the half year, net of tax		(42)	-
Total comprehensive loss for the half year		(8,321)	(9,398)
		Cents	Cents
Basic earnings per share	12	(2.77)	(4.98)
Diluted earnings per share	12	(2.77)	(4.98)

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2021

	Note	31 December 2021 \$'000	30 June 2021 \$'000
Assets			
Current assets			
Cash and cash equivalents		10,680	3,105
Trade and other receivables		2,865	4,196
Prepayments		1,498	1,896
Inventories		12,343	12,066
Biological assets		887	829
Total current assets		28,273	22,092
Non-current assets			
Property, plant and equipment	5	111,675	75,789
Intangibles		1,734	2,046
Financial assets at fair value through profit or loss	6	1,824	1,136
Right-of-use assets		460	644
Other		85	85
Total non-current assets		115,778	79,700
Total assets		144,051	101,792
Liabilities			
Current liabilities			
Trade and other payables		4,654	8,333
Contract liabilities		180	141
Lease liabilities		428	409
Employee provisions		690	520
Total current liabilities		5,952	9,403
Non-current liabilities			
Lease liability		69	271
Employee provisions		303	246
Loans and borrowings	7	35,202	-
Total non-current liabilities		35,574	517
Total liabilities		41,526	9,920
Net assets		102,525	91,871
Equity			
Issued capital	8	168,490	149,673
Reserves	9	3,478	3,363
Accumulated losses		(69,443)	(61,164)
Total equity		102,525	91,872

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

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the half year ended 31 December 2021

	Issued capital \$'000	Reserves \$'000	Accumulated losses \$'000	Total equity \$'000
Balance at 1 July 2020	97,137	2,143	(38,205)	61,075
Loss after income tax expense for the half year	-	-	(9,398)	(9,398)
Other comprehensive income for the half year, net of tax	-	-	-	-
Total comprehensive loss for the half year	-	-	(9,398)	(9,398)
<i>Transactions with owners in their capacity as owners:</i>				
Contributions of equity, net of transaction costs	47,743	-	-	47,743
Share-based payments	-	3,668	-	3,668
Balance at 31 December 2020	144,880	5,811	(47,603)	103,088

	Issued capital \$'000	Reserves \$'000	Accumulated losses \$'000	Total equity \$'000
Balance at 1 July 2021	149,673	3,363	(61,164)	91,872
Loss after income tax expense for the half year	-	-	(8,279)	(8,279)
Other comprehensive loss for the half year, net of tax	-	(42)	-	(42)
Total comprehensive loss for the half year	-	(42)	(8,279)	(8,321)
<i>Transactions with owners in their capacity as owners:</i>				
Contributions of equity, net of transaction costs (Note 8)	18,817	-	-	18,817
Share-based payments	-	157	-	157
Balance at 31 December 2021	168,490	3,478	(69,443)	102,525

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the half year ended 31 December 2021

	Note	31 December 2021 \$'000	31 December 2020 \$'000
Cash flows from operating activities			
Receipts from customers		3,375	181
Payments to suppliers and employees		(10,512)	(12,388)
Interest received		1	27
Other income – includes R&D tax incentive rebate		2,280	857
Net cash used in operating activities		(4,856)	(11,323)
Cash flows from investing activities			
Payments for property, plant and equipment	5	(40,469)	(756)
Net cash used in investing activities		(40,469)	(756)
Cash flows from financing activities			
Proceeds from issue of shares	8	18,696	40,198
Proceeds from borrowings		35,202	-
Share issue transaction costs		(814)	(1,830)
Repayment of lease liabilities		(184)	(192)
Net cash from financing activities		52,900	38,176
Net increase in cash and cash equivalents		7,575	26,097
Cash and cash equivalents at the beginning of the financial half year		3,105	1,554
Cash and cash equivalents at the end of the financial half year		10,680	27,651

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

8 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

Note 1. Significant accounting policies

These general-purpose financial statements for the interim half year reporting period ended 31 December 2021 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

This financial report does not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 30 June 2021 and any public announcements made by Cann Group Limited and its controlled entities during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001 and the Australian Securities Exchange Listing Rule 3.1.

Historical cost convention

The financial statements have been prepared under the historical cost convention, except for, where applicable, the revaluation of the financial assets and liabilities at fair value through the profit and loss.

The principal accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, except for the policies stated below.

Rounding of amounts

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

New or amended Accounting Standards and Interpretation adopted

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those followed in the preparation of The Group's annual consolidated financial statements for the year ended 30 June 2021. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

New or amended Accounting Standards and Interpretations adopted

The Group has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian

Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

Note 2. Critical accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions which affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

Share-based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using either the Binomial or Black-Scholes model taking into account the

terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity.

Provision for impairment of inventories

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

Fair value measurement hierarchy

The Group is required to classify all assets and liabilities, measured at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being: Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date; Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and Level 3: Unobservable inputs for the asset or liability. Considerable judgement is required to determine what is significant to fair value and therefore which category the asset or liability is placed in can be subjective.

The fair value of assets and liabilities classified as level 3 is determined by the use of valuation models. These include discounted cash flow

analysis or the use of observable inputs that require significant adjustments based on unobservable inputs.

Estimation of useful lives of assets

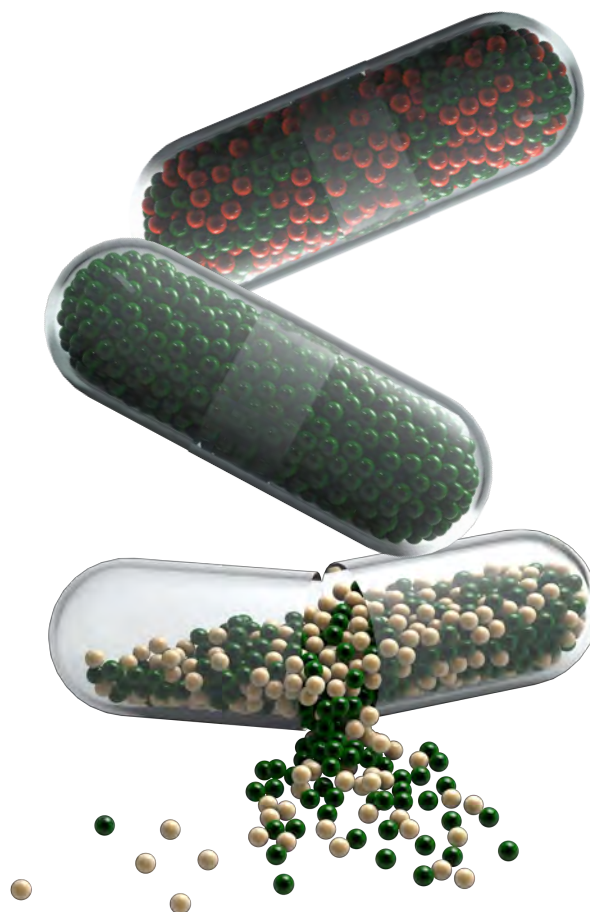
The Group determines the estimated useful lives and related depreciation and amortisation charges for its property, plant and equipment and finite life intangible assets. The useful lives could change significantly as a result of technical innovations or some other event. The depreciation and amortisation charge will increase where the useful lives are less than previously estimated lives, or technically obsolete or non-strategic assets that have been abandoned or sold will be written off or written down.

Impairment of non-financial assets other than goodwill and other indefinite life intangible assets

The Group assesses impairment of non-financial assets other than goodwill and other indefinite life intangible assets at each reporting date by evaluating conditions specific to the Group and to the particular asset that may lead to impairment. If an impairment trigger exists, the recoverable amount of the asset is determined. This involves fair value less costs of disposal or value-in-use calculations, which incorporate a number of key estimates and assumptions.

COVID-19 impact

As with many other businesses, the Group implemented changes in order to comply with the Government imposed COVID-19 restrictions, safeguarding the Group's commitment to the health and welfare of its



employees and business partners. The Group had faced difficulties, due to COVID-19, in its plan to import materials from overseas for Mildura construction and also significant delays in getting the regulatory clearances for shipment of finished products to export markets in Europe. The Group is working in line with government guidelines to implement all the safeguards in place for all of its facilities so that operations can run as smoothly as possible.

Non-recognition of carry forward tax losses

The balance of future income tax benefit estimated to be \$0.82 million (30 June 2021 \$4.88 million) arising from current half year tax losses of \$8.28 million (30 June 2021 \$25.10

million) and timing differences have 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 \$15.19 million which has not been recognised as an asset, will only be obtained if:

- (i) the Group derives future assessable income of a nature and an amount sufficient to enable the benefit to be realised.

- (ii) the Group continues to comply with the conditions for deductibility imposed by law; and
- (iii) no changes in tax legislation adversely affecting the Company realising the benefit.

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.

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.

Note 3. Other income

	31 December 2021 \$'000	31 December 2020 \$'000
R&D tax rebate	2,187	3,266
Government grants	-	450
Custom duty refund	-	325
Net fair value gain on financial assets	688	-
Other	95	109
	<hr/>	<hr/>
Other income	2,970	4,150

The R&D tax rebate is recoverable on all eligible research and development expenses incurred during the period 1 July 2020 to 30 June 2021. The rebate for the year ended 30 June 2021 was received by the Group on 6 December 2021.

Note 4. Administration and corporate costs

	31 December 2021 \$'000	31 December 2020 \$'000
Employee salaries and wages	4,218	3,591
Other corporate and administration expenses	5,962	3,595
Insurance expenses	434	481
Legal and consultancy expenses	585	580
Employee superannuation	346	271
	<hr/>	<hr/>
	11,545	8,518

A write down to inventory of \$0.51 million has been charged to administration and corporate costs during the period to recognise the cost of unsaleable inventory.

Note 5. Property, plant and equipment

	31 December 2021 \$'000	30 June 2021 \$'000
Land and buildings – at cost	13,852	13,852
Less: Accumulated depreciation	(251)	(200)
	<u>13,601</u>	<u>13,652</u>
Freehold improvements – at cost	870	870
Less: Accumulated depreciation	(561)	(480)
	<u>309</u>	<u>390</u>
Plant and equipment – at cost	8,271	7,475
Less: Accumulated depreciation	(5,243)	(4,603)
	<u>3,028</u>	<u>2,872</u>
Fixtures and fittings – at cost	123	113
Less: Accumulated depreciation	(116)	(112)
	<u>7</u>	<u>1</u>
Computer equipment – at cost	176	161
Less: Accumulated depreciation	(170)	(154)
	<u>6</u>	<u>7</u>
Capital work in progress	<u>94,724</u>	<u>58,867</u>
	<u><u>111,675</u></u>	<u><u>75,789</u></u>

The Capital work in progress account has increased significantly during the half year as the Company has continued to progress the construction of its large-scale state-of-the-art glasshouse facility in Mildura.

Note 6. Financial assets at fair value through profit or loss

	31 December 2021 \$'000	30 June 2021 \$'000
Shares Zalm Therapeutics Ltd	799	111
Shares iuvo Therapeutics Ltd	1,025	1,025
	<u>1,824</u>	<u>1,136</u>
<i>Reconciliation</i>		
Reconciliation of fair values at the beginning and end of the current and previous financial half year are set out below:		
Opening balance – investment in Zalm Therapeutics Ltd	111	935
Additional subscription shares	-	924
Fair value movement during the period in Zalm Therapeutics Ltd	688	(1,748)
	<u>799</u>	<u>111</u>
Shares in iuvo Therapeutics Ltd	1,025	1,025
Closing fair value at 31 December 2021	<u>1,824</u>	<u>1,136</u>

Note 6. Financial assets at fair value through profit or loss (continued)

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

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

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

Level 3: Unobservable inputs for the asset or liability.

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

Details of the Group's investments are as follows;

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

The Group, through its wholly owned subsidiary Botanitech, holds 8.4% of the Zalm business. The Group has no further obligation to invest further funds into the Zalm business.

iuvo Therapeutics Ltd ("iuvo") – Level 3 investment

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

Consideration of fair value at 31 December 2021

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

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

The Directors have assessed the fair value of the investment in Zalm Therapeutics ("Zalm") at reporting date and determined that based on a number of factors the most appropriate valuation methodology for this investment is to value the investment based on the offer price for their shares that has been agreed with Rua Bioscience Ltd ("Rua"). As announced on 30 November 2021 subject to shareholder approval Rua will purchase all of the shares in Zalm in exchange for shares in Rua. The total value of the transaction is up to NZ\$10 million, of which Cann will benefit on a pro rata basis in accordance with its shareholding in Zalm. The investment has been revalued to fair value resulting in a value uplift of \$0.69 million for the half year. Refer to Note 11 for further details.

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

Note 7. NAB construction loan

	31 December 2021 \$'000	30 June 2021 \$'000
NAB construction loan	35,202	-

The Group has a \$50 million secured debt facility with the National Australia Bank for the construction of the first stage of its state-of-the-art medicinal cannabis site near Mildura. The base interest rate used is the Bank Bill Swap Rate (BBSY) and the drawn margin will be calculated at 3.20% p.a. A facility fee of 1.8% is payable per annum.

Following the completion of the build, the Group will engage with the NAB to transition the construction loan into an amortisation loan. The term of the loan is expected to be eight years.



Cann Group's Mildura facility - January 2022

Note 8. Issued capital

	31 December 2021 Shares	30 June 2021 Shares	31 December 2021 \$'000	30 June 2021 \$'000
Ordinary shares – fully paid	348,854,503	277,911,998	168,490	149,673

Movements in ordinary share capital

Details	Date	Shares	Issue Price	\$'000
Opening balance	1 July 2021	277,911,998		149,673
Share issued to CSIRO as payment for research consulting services	27 July 2021	206,895	\$0.40	83
Shares issued under the placement announced 26 July 2021 net of capital raising expenses	30 July 2021	32,472,724	\$0.275	8,154
Shares issued to Directors under the placement announced 26 July 2021	7 September 2021	3,890,912	\$0.275	1,070
Shares issued to Harvest One as part payment for the acquisition of Satipharm	13 September 2021	2,725,863	\$0.295	804
Shares issued to Harvest One as deferred earn out payments after the purchase of Satipharm	13 September 2021	24,083	\$0.403	10
Shares issued under the Share Purchase Plan	22 October 2021	31,622,028	\$0.275	8,696
Closing balance	31 December 2021	348,854,503		168,490

Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the Company in proportion to the number of and amounts paid on the shares held. At shareholder 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.

On 27 July 2021 206,895 shares were issued to CSIRO as payment for research consulting services provided pursuant to the Research Services Umbrella Agreement at a weighted average price of \$0.40 per share.

On 30 July 2021 32,472,724 shares were issued to new shareholders at an issue price of \$0.275 per share as part on an institutional placement.

On 7 September 2021 3,890,912 shares were issued to Directors who took part in the institutional placement after shareholder approval was received at a general meeting of the Company.

On 13 September 2021 24,083 shares were issued to Harvest One as deferred consideration for the acquisition of shares in the Satipharm business. The payment was made in relation to certain deferred earn out payments at an issue price of \$0.403 per share.

On 13 September 2021 2,725,863 shares were issued to Harvest One as deferred consideration for the acquisition of shares in the Satipharm business. The payment was made following receipt of certain equipment by Cann at an issue price of \$0.295 per share.

On 22 October 2021 31,622,028 shares were issued to shareholders at an issue price of \$0.275 per shares after the successful completion of a Share Purchase Plan.

Satipharm acquisition – completion of payments

During the half year, the Company issued a total of 2,749,946 fully paid ordinary shares to Harvest One as deferred consideration for the acquisition of the Satipharm business. These shares were issued following receipt of manufacturing equipment and confirmation of adjusted earnout payments. The issue of those shares now completes all payment obligations for the Satipharm acquisition.

Share buy-back

There is no current on-market share buy-back.

Note 9. Reserves

	31 December 2021 \$'000	30 June 2021 \$'000
Foreign currency reserve	(84)	(42)
Share-based payments reserve	3,562	3,405
	<u>3,478</u>	<u>3,363</u>
<i>Movement in the number of rights held under during the half year</i>		
Opening balance 1 July 2021	990,000	-
Issued during the half year	2,958,362	990,000
Closing balance 31 December 2021	<u>3,948,362</u>	<u>990,000</u>

Performance rights over ordinary shares

On 21 December 2021 1,000,000 Performance Rights were issued to Mr Peter Crock. These Performance Rights will convert to ordinary fully paid shares upon the Mildura facility being successfully commissioned.

On 21 December 2021 1,758,362 Performance Rights were issued to Key Management Personnel. These Performance Rights will convert to ordinary fully paid shares on a pro rata basis for those employees if certain performance conditions are met within three (3) years of the grant date.

An additional 200,000 Performance Rights were issued to Key Management Personnel of Satipharm as part of the post integration of the business into Cann. Performance Rights will vest in two tranches while the employees remain employed by the Satipharm business with 50% vesting on 10 March 2022 and a further 50% vesting on 10 March 2023.

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

Grant date	No. of performance rights	Spot price on issue date	Risk free interest rate %	Expiry date	Volatility rate %	Fair Value \$000's
21 December 2021	2,958,362	\$0.285	0.96	21 December 2024	85.731	843

The fair value of rights at grant date is determined using the Black-Scholes calculation method and amortised over the vesting period of the rights. An amount of \$157,592 was amortised during the half year.

Options over ordinary shares

Grant date	No. of options	Exercise price	Balance at start of the half year	Granted during the half year	Exercised during the half year	Expired during the half year	Balance at end of the half year
4 April 2020	145,007	\$0.95	145,007	-	-	-	145,007
29 July 2020	13,808,086	\$0.46	13,808,086	-	-	-	13,808,086
30 September 2020	7,175,285	\$0.46	7,175,285	-	-	-	7,175,285
			21,128,378				21,128,378

Note 10. Contingent liabilities and capital commitments

The Group has given bank guarantee of \$50,000 (2020: \$50,000) for their operating premises lease of their Northern Facility.

As at the reporting date the Group had capital commitments of \$13.0 million in respect of the Mildura glasshouse construction commitments. The construction process is nearly complete for the state-of-the-art 12,500kg capacity facility and commissioning of the various components of the facility is either finalised or underway and is expected to be completed prior to 30 June 2022.

Note 11. Events after the reporting period

On 13 January 2022 269,022 shares were issued to employees of Cann Group under the Employee Share Gift Plan. The plan allows for \$1000 worth of shares to be granted to eligible employees. Shares were issued at a five (5) day VWAP up to and including 12 January 2022.

On 20 January 2022 Cann announced shareholder approval had been received by Rua Biosciences Limited to purchase all of the shares held in Zalm Therapeutics. The total value of the transaction is up to NZ\$10 million, of which Cann will benefit on a pro rata basis in accordance with its shareholding in Zalm. Refer to Note 5 for further information.

On 25 January 2022 Cann announced that the Therapeutic Goods Administration (**TGA**) had granted Cann a GMP licence to manufacture therapeutic goods for its Southern facility. The Southern GMP Licence enables Cann to manufacture Active Pharmaceutical Ingredient (API) and medicinal cannabis products under cGMP conditions at its Southern facility for supply in Australia and overseas. This follows a significant upgrade of that facility which was substantially funded by the Company's successful capital raise in July and August last year.

On 15 February 2022 Cann announced that it would begin recruiting patients in March 2022 for a phase 3 clinical trial examining the efficacy of its proprietary CBD-Satipharm capsule for short term treatment of sleep disturbances and quality of life outcomes. The clinical trial is a randomised, double blind, placebo-controlled study and part of a registration program undertaken by Cann to secure an Australian approval for a Schedule 3 over-the-counter cannabidiol product.

Note 12. Earnings per share

	31 December 2021 \$'000	31 December 2020 \$'000
Loss after income tax	(8,279)	(9,398)
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	298,542,295	188,826,466
Weighted average number of ordinary shares used in calculating diluted earnings per share	298,542,295	188,826,466
	Cents	Cents
Basic earnings per share	(2.77)	(4.98)
Diluted earnings per share	(2.77)	(4.98)

DIRECTORS' DECLARATION

In the Directors' opinion:

- 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;
- the attached financial statements and notes give a true and fair view of the Group's financial position as at 31 December 2021 and of its performance for the financial half year ended on that date; and
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of Directors made pursuant to section 303(5)(a) of the Corporations Act 2001.

On behalf of the Directors



Allan McCallum, AO

Chairman

17 February 2022

A close-up photograph of a cannabis bud. The bud is covered in green, serrated leaves and is densely coated with fine, orange, hair-like trichomes. The background is a solid, vibrant pink color.

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INDEPENDENT
AUDITOR'S
REPORT



Cann Group Limited

Independent auditor's review report

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 group), which comprises the consolidated statement of financial position as at 31 December 2021, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, 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 2021 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*.

Basis for Conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Financial Report* section of our report. We are independent of the Company in accordance with 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 annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Responsibility of Management for the Financial Report

The directors of the Cann Group Limited 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.

ACCOUNTANTS & ADVISORS

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(WB015_2007)



**Auditor's Responsibilities for the Review of the Financial Report**

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Company's financial position as at 31 December 2021 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*.

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.

A handwritten signature in black ink that reads "William Buck".

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

A handwritten signature in black ink that reads "A. A. Finnis".

A. A. Finnis
Director

Melbourne, 17 February 2022