

24 February 2023

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 2022**

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



**Deborah Ambrosini**  
Chief Financial Officer and Company Secretary  
Cann Group Limited

# APPENDIX 4D | HALF YEAR REPORT

## 1. Company details

<b>Name of entity</b>	Cann Group Limited
<b>ABN</b>	25 603 949 739
<b>Reporting period</b>	For the half year ended 31 December 2022
<b>Previous period</b>	For the half year ended 31 December 2021

## 2. Results for announcement to the market

				\$'000
Revenues from ordinary activities	up	83.4%	to	5,819
Loss from ordinary activities after tax	up	127.6%	to	(18,844)
Loss for the half year	up	127.6%	to	(18,844)

	31 December 2022 Cents	31 December 2021 Cents
Basic earnings per share	(5.34)	(2.77)
Diluted earnings per share	(5.34)	(2.77)

### 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 \$18,844,000 (31 December 2021: \$8,278,000).

## 3. Net tangible assets

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	18.83	23.76

## 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.

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## 7. Dividend reinvestment plans

Not applicable.

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## 8. Details of associates and joint venture entities

Not applicable.

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## 9. Foreign entities

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

Not applicable.

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## 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 Financial Report. An unmodified conclusion has been issued. A material uncertainty relating to going concern is included in the auditor's report and the auditor's conclusion is not modified in respect of this matter.

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## 11. Attachments

### ***Details of attachments (if any):***

The Half Year Financial Report of Cann Group Limited for the half year ended 31 December 2022 is attached.

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## 12. Signed



**Allan McCallum, AO**

Chairman  
Melbourne

Date: 24 February 2023

31 DECEMBER 2022

# HALF YEAR FINANCIAL REPORT

**Cann Group Limited**  
ABN 25 603 949 739

# CONTENTS

	PAGE
1 Corporate directory	1
2 Directors' report	2
3 Auditor's independence declaration	6
4 Consolidated statement of profit or loss and other comprehensive income	9
5 Consolidated statement of financial position	10
6 Consolidated statement of changes in equity	11
7 Consolidated statement of cash flows	12
8 Notes to the consolidated financial statements	13
9 Directors' declaration	23
10 Independent auditor's review report to the members of Cann Group Limited	24

## 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 2022. 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 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 Doug Rathbone, AM (Non-executive Director)

Ms Jenni Pilcher (Non-executive Director)

Mr Robert Barnes (Non-executive Director) *appointed 20 September 2022*

Dr Julian Chick (Non-executive Director) *appointed 26 October 2022*

## Chief Executive Office

Mr Peter Koetsier *appointed 16 January 2023*

## Company secretary

Ms Deborah Ambrosini *appointed 25 October 2022*

## Auditor

William Buck

Level 20, 181 William Street

Melbourne, Victoria 3000

## Registered office

Ground Floor

262 Lorimer Street

Port Melbourne

Victoria 3207

## Share register

Link Market Services Limited

Tower 4, 727 Collins Street

Melbourne, Victoria 3008

Phone: 1300 554 474

## Contact information

Phone: +61 3 9095 7088

Email: [contact@canngrouponlimited.com](mailto:contact@canngrouponlimited.com)

Website: [www.canngrouponlimited.com](http://www.canngrouponlimited.com)

## 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)



**2**

## 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 2022.

### 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 Doug Rathbone, AM (Non-executive Director)

Ms Jenni Pilcher (Non-executive Director)

Mr Robert Barnes (Non-executive Director) *appointed 20 September 2022*

Dr Julian Chick (Non-executive Director) *appointed 26 October 2022*

Mr John Sharman (Non-executive Director) *resigned 1 September 2022*

### 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 \$18.84 million (31 December 2021: \$8.28 million). Higher than usual administration, corporate and R&D costs reflected the scale up of the Mildura facility and the completion of the S3 clinical trial during the half year. The final trial participant completed the trial in November 2022 and the Company expects that the clinical trial costs may be claimable under the Research and Development Tax Incentive program for the current financial year. Additionally, depreciation expense increased significantly with the amortisation of the Mildura facility commencing from April 2022.

The Group's basic and diluted loss per share is 5.34 cents per share (2021: 2.77 cents loss per share). The weighted average number of shares used to calculate the basic and diluted earnings per share is 352,735,883 (2021: 298,542,295).

The net assets of the Group are \$74,314 million as at 31 December 2022 (30 June 2022: \$84,903 million).

**2****Review of operations  
Sales and production**

The company achieved significant increases in sales during the half year, compared with the prior comparative period. Most of this improvement was seen in domestic sales where the company's sales models gained significant traction, with new clients entering into supply agreements and several existing clients cycling repeat orders.

International interest in medicinal cannabis remains strong and the company has been very active in pursuing new customers.

Production has increased accordingly to meet the sales demand.

**Facilities**

Significant commercial progress has been made at the Company's flagship Mildura facility which received its Good Manufacturing Practice (GMP) licence from the Therapeutic Goods Administration (TGA) on 30 June 2022. This licence enabled the facility to produce patient-ready hard capsule products, including the Company's proprietary Satipharm CBD capsules, as well as dried flower as an Active Pharmaceutical Ingredient. On 4 October 2022, Cann achieved the extension of this GMP licence to also cover patient-ready dried flower products, providing the Company with the final regulatory approval necessary to cultivate, harvest, test, manufacture, and package dried flower products entirely from the Mildura facility.

In-line with Cann's strategic plan to centralise operational activities at the Mildura site, the Company announced it had reached terms with SatiVite Pty Ltd on the sale of Cann's Southern cultivation and manufacturing facility for a total consideration of \$5.48 million, which is expected to settle in the second half of the financial year. The divestment of the Southern facility is a significant part of Cann's streamlining and efficiency program that will consolidate the majority of Cann's operations at its new Mildura facility. The parties have come to terms on the sale of the Southern facility's land and business assets, the licensing of certain Cann proprietary genetics, and the provision of services from Cann to SatiVite to assist with the transfer of commercial operations.

**Research and Development**

Cann's ability to execute on its commercial strategies is underpinned by the Company's research activities, and key ag-science collaborations including those with La Trobe University, the ARC Research Hub for Medicinal Agriculture, Agribio and CSIRO. Cann's accelerated plant breeding program continues to develop unique cultivars with more stable genetics, higher cannabinoid yields, and greater environmental resilience. These innovations are aimed at reducing operating costs, improving efficiencies, and satisfying emerging market trends. Several new genetic lines created

through the breeding program are currently undergoing commercial scale evaluation at the Mildura facility, and Cann anticipates that plants selected from this generation of cultivars will be included in upcoming production schedules. The development of new and improved cultivars is ongoing and the testing of a next generation of genetics is already underway.

### **Funding**

On 25 October 2022, the Company announced that it would be proceeding with a Share Purchase Plan (SPP) to raise between \$8 million and \$10 million. The SPP offer closed on 30 November 2022 after having successfully raised \$8.18 million. The proceeds from share purchase plan will contribute to the Company's strategic investment in expanding GMP manufacturing capabilities at Mildura.

Funds will also be used to assist with working capital over the medium term.

### **Board and management changes**

During the half year the Company announced that two new directors were joining the Company's Board to fill casual vacancies. Mr Robert Barnes was appointed to the Board of Cann Group on 20 September 2022 and was re-elected at the Company's AGM on 25 October 2022 while Dr Julian Chick's appointment took effect from 26 October 2022.

Mr John Sharman resigned from the Board due to other business commitments on 1 September 2022, having served as a director since 27 April 2021.

On 3 October 2022, Ms Geraldine Farrell resigned as Company Secretary effective 25 October 2022, with Cann Group's Chief Financial Officer, Ms Deborah Ambrosini being appointed to the role effective 25 October 2022 after the Company's Annual General Meeting.

On 10 January 2023 Cann Group announced the appointment of Mr Peter Koetsier as CEO of the Company. Mr Koetsier commenced in the role on 16 January 2023.

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

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

### **Dividends**

No dividend has been proposed or paid during the half year period ended 31 December 2022.

### **Rounding of amounts**

The Company is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been

rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

**Auditor'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

A handwritten signature in black ink, appearing to read 'Allan McCallum', is written over a horizontal line.

**Allan McCallum, AO**  
Chairman  
24 February 2023



31 DECEMBER 2022

# 3 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 2022 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, 24 February 2023



31 DECEMBER 2022

# HALF YEAR FINANCIAL REPORT

**4**

# **CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**

For the half year ended 31 December 2022

	Note	31 December 2022 \$'000	31 December 2021 \$'000
<b>Revenue</b>		<b>5,819</b>	<b>3,172</b>
Other income	3	2,235	2,970
Total revenue		<b>8,054</b>	<b>6,142</b>
<b>Expenses</b>			
Administration and corporate costs	4	(16,874)	(11,544)
Research and development costs		(2,571)	(947)
Depreciation and amortisation expense		(6,087)	(1,277)
Total expenses		<b>(25,532)</b>	<b>(13,768)</b>
<b>Loss before finance costs and income tax expense</b>		<b>(17,478)</b>	<b>(7,626)</b>
Finance costs		(1,366)	(652)
<b>Loss before income tax expense</b>		<b>(18,844)</b>	<b>(8,278)</b>
Income tax expense		-	-
<b>Loss after income tax expense for the half year</b>		<b>(18,844)</b>	<b>(8,278)</b>
<b>Other comprehensive income / (loss)</b>			
<i>Items that may not be reclassified subsequently to profit or loss</i>			
Movement in foreign currency translation reserve		13	(42)
Other comprehensive loss for the half year, net of tax		13	(42)
<b>Total comprehensive loss for the half year</b>		<b>(18,831)</b>	<b>(8,320)</b>
		<b>Cents</b>	<b>Cents</b>
Basic earnings per share	12	(5.34)	(2.77)
Diluted earnings per share	12	(5.34)	(2.77)

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 2022

	Note	31 December 2022 \$'000	30 June 2022 \$'000
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents		7,190	1,914
Trade and other receivables		3,128	4,158
Prepayments		2,901	1,641
Inventories		12,234	10,673
Biological assets		760	782
		<u>26,213</u>	<u>19,168</u>
Non-current assets classified as held for sale	5	2,787	-
Total current assets		<u>29,000</u>	<u>19,168</u>
<b>Non-current assets</b>			
Property, plant and equipment	6	112,060	117,929
Intangibles		1,180	1,462
Financial assets at fair value through other comprehensive income		182	743
Right-of-use assets		92	276
Prepayments		50	85
Total non-current assets		<u>113,564</u>	<u>120,495</u>
<b>Total assets</b>		<u>142,564</u>	<u>139,663</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables		8,404	6,519
Contract liabilities		607	162
Lease liabilities		103	304
Provisions		881	815
Borrowings	7	11,950	3,500
Total current liabilities		<u>21,945</u>	<u>11,300</u>
<b>Non-current liabilities</b>			
Provisions		144	99
Borrowings	7	46,161	43,361
Total non-current liabilities		<u>46,305</u>	<u>43,460</u>
<b>Total liabilities</b>		<u>68,250</u>	<u>54,760</u>
<b>Net assets</b>		<u>74,314</u>	<u>84,903</u>
<b>Equity</b>			
Issued capital	8	177,589	169,425
Reserves	9	9	(82)
Accumulated losses		<u>(103,284)</u>	<u>(84,440)</u>
<b>Total equity</b>		<u>74,314</u>	<u>84,903</u>

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

**6**

# **CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

For the half year ended 31 December 2022

	Issued capital \$'000	Share based payments reserve \$'000	Foreign currency translation services \$'000	Accumulated losses \$'000	Total equity \$'000
Balance at 1 July 2021	149,673	3,405	(42)	(61,164)	91,872
Loss after income tax expense for the half year	-	-	-	(8,278)	(8,278)
Other comprehensive income for the half year, net of tax	-	-	(42)	-	(42)
Total comprehensive loss for the half year	-	-	(42)	(8,278)	(8,320)
<i>Transactions with owners in their capacity as owners:</i>					
Contributions of equity, net of transaction costs	18,817	-	-	-	18,817
Share-based payments	-	157	-	-	157
Balance at 31 December 2021	168,490	3,562	(84)	(69,442)	102,526

	Issued capital \$'000	Share based payments reserve \$'000	Foreign currency translation services \$'000	Accumulated losses \$'000	Total equity \$'000
Balance at 1 July 2022	169,425	98	(180)	(84,440)	84,903
Loss after income tax expense for the half year	-	-	-	(18,844)	(18,844)
Other comprehensive loss for the half year, net of tax	-	-	13	-	13
Total comprehensive income / (loss) for the half year	-	-	13	(18,844)	(18,831)
<i>Transactions with owners in their capacity as owners:</i>					
Contributions of equity, net of transaction costs (note 8)	8,164	-	-	-	8,164
Share-based payments (note 9)	-	78	-	-	78
Balance at 31 December 2022	177,589	176	(167)	(103,284)	74,314

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 2022

	Note	31 December 2022 \$'000	31 December 2021 \$'000
<b>Cash flows from operating activities</b>			
Receipts from customers		5,373	3,375
Payments to suppliers and employees		(21,690)	(10,512)
Interest received		1	1
Other income – R&D tax incentive rebate		4,348	2,280
Net cash used in operating activities		(11,968)	(4,856)
<b>Cash flows from investing activities</b>			
Payments for property, plant and equipment	6	(2,538)	(40,469)
Proceeds from the sales of assets		310	-
Net cash used in investing activities		(2,228)	(40,469)
<b>Cash flows from financing activities</b>			
Proceeds from issue of shares	8	8,175	18,696
Proceeds from borrowings		11,517	35,202
Share issue transaction costs		(10)	(814)
Repayment of borrowings		(9)	-
Repayment of lease liabilities		(201)	(184)
Net cash from financing activities		19,472	52,900
Net increase in cash and cash equivalents		5,276	7,575
Cash and cash equivalents at the beginning of the financial half year		1,914	3,105
Cash and cash equivalents at the end of the financial half year		7,190	10,680

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## Note 1. Significant accounting policies

These general purpose financial statements for the interim half-year reporting period ended 31 December 2022 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 2022 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 2022. 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.

### Going concern

The Consolidated Group has incurred losses for the half year ended 31 December 2022 of \$18.84 million (31 December 2021: \$8.28 million) and has a net cash outflow from operating activities of \$11.97 million (31 December 2021: \$4.86 million). which, indicate an uncertainty which may cast doubt as to whether the Group will continue as a going concern.

The Directors believe there are reasonable grounds to expect the Group will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report, despite an element of uncertainty existing as at 31 December 2022, and therefore continue as a going concern, after consideration of a range of factors, not limited to, but including the following:

- (a) The Consolidated Group has a working capital surplus of \$7.06 million as at 31 December 2022 (30 June 2022: \$7.87 million) which includes cash assets of \$7.19 million as at 31 December 2022 (30 June 2022: \$1.91 million), trade and other receivables of \$3.13 million (30 June 2022: \$4.16 million), trade creditors and other payables of \$8.40 million and (30 June 2022: \$6.52 million).
- (b) In November 2022 the Company conducted a Share Purchase Plan and successfully raised \$8.18 million after seeking to raise between \$8m to \$10m. The proceeds from share purchase plan will contribute to the Company's strategic investment in expanding GMP manufacturing capabilities at Mildura. Funds will also be used to assist with working capital over the medium term.
- (c) The Group has a \$15 million working capital facility that it can draw on during the year. The facility was drawn to \$11.95 million at 31 December 2022, leaving an available balance of \$3.05 million.
- (d) To maximise the benefits of Mildura, a streamlining of commercial operations which includes centralising key activities at Mildura is well underway. Consistent with the aim to consolidate activities and achieve cost efficiencies, the Company has agreed terms for the sale of its Southern facility for a total consideration of \$5.48 million. This sale of the land and buildings is expected to settle on 28 February 2023 while the sale of the assets is expected to settle later in the year.
- (e) The Group's revenue continues to grow at a significant rate with the Group having already billed 91% of the full year revenue recorded in FY22 after a strong month of sales in December where Cann billed approximately \$2 million. Revenue growth has accelerated this half year across Cann's portfolio, including large repeat

orders for oil and flower products, and the largest single domestic order for an oil product received by the Company so far. This has been enabled through the continuous improvement of cultivation and manufacturing processes at the Mildura facility. Initiatives are in place for both operations and business development that aim to further accelerate the trajectory of revenue over the coming year.

- (f) During the half year the Group has experienced a number of establishment expenses as it scaled up the Mildura facility. Whilst Mildura's cost per gram of flower is lower in cost than material produced from Southern, the full extent of the efficiencies of scale at Mildura have not been realised at this time. The company has initiated a continuous improvement process resulting in increased crop yields which is expected to flow through the supply chain and as such a progressive reduction is expected this CY23.
- (g) Additionally, the Group has also incurred a number of one-off significant expenses associated with the S3 clinical trial which was completed in November 2022. It is anticipated that these expenses will be eligible to be included in the Company's 2023 Research and Development Tax Incentive registration which may assist in offsetting this expenditure.

The Company has prepared cash flow forecasts that indicate that the Consolidated

Group will have sufficient cash flows to meet its commitments for a period of at least 12 months from the date of this report.

Based on the cash flow forecast, which include the monitoring of operational costs, the Directors are satisfied that, the going concern basis of preparation is appropriate. The financial report has been prepared on a going concern basis, which assumes continuity of normal business activities and the settlement of liabilities in the ordinary course of business.

#### **Note 2. Critical accounting judgements, estimates and assumptions**

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

### ***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.

### **Non-recognition of carry forward tax losses**

The balance of future income tax benefit estimated to be \$3.57 million (30 June 2022 \$5.92 million) arising from current half year tax losses of \$18.84 million (30 June 2022 \$26.47 million) and timing differences has not been recognised as an asset because it is not clear when the losses will be recovered. The cumulative future income tax benefit estimated to be \$22.91 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.

Cann has a number of customers that it sells to both domestically and internationally. Sales to one customer represent 22% (31 December 2021: nil customers) of the Company's revenue at 31 December 2022.

### **Note 3. Other income**

	31 December 2022 \$'000	31 December 2021 \$'000
Net fair value gain / loss on financial assets	(561)	689
R&D tax refund	2,520	2,187
Other	276	94
Other income	<u>2,235</u>	<u>2,970</u>

The R&D tax rebate was recoverable on all eligible research and development expenses incurred during the period 1 July 2021 to 30 June 2022. An accrual to 31 March 2022 was raised in FY22 after a review was conducted by the Company's independent tax specialists. The amount recognised in the current period represents the additional amount received to the accrual that was raised in the prior financial year.

**Note 4. Administration and corporate costs**

	31 December 2022 \$'000	31 December 2021 \$'000
Employee salaries and wages	6,497	4,218
Cultivation and manufacturing expenses	5,971	3,653
Other corporate and administration expenses	2,654	2,308
Insurance expenses	680	434
Legal and consultancy expenses	528	585
Employee superannuation	544	346
	<u>16,874</u>	<u>11,544</u>

A write down of \$0.197 million has been charged to administration and corporate costs during the period to recognise the cost of unsaleable inventory.

Employee costs and cultivation costs have increased in line with expectations as the Company scales up its Mildura facility.

**Note 5. Non-current assets classified as held for sale**

	31 December 2022 \$'000	30 June 2022 \$'000
<i>Current assets</i>		
Land and buildings	1,669	-
Freehold improvements	385	-
Plant and equipment	733	-
	<u>2,787</u>	<u>-</u>

On 23 December 2022, Cann Group announced it had reached terms with SatiVite Pty Ltd on the sale of Cann's Southern cultivation and manufacturing facility for a total consideration of \$5.48 million. The divestment of the Southern facility is a significant part of Cann's streamlining and efficiency program that will consolidate the majority of Cann's operations at its new Mildura facility. The parties have come to terms on the sale of the Southern facility's land and business assets, the licensing of certain Cann proprietary genetics, and the provision of services from Cann to SatiVite to assist with the transfer of commercial operations. As at 31 December 2022 the relevant assets have been classified as non-current assets held for sale and are held at their carrying value in accordance with AASB 5.

**8**
**Note 6. Property, plant and equipment**

	31 December 2022 \$'000	30 June 2022 \$'000
Non-current assets		
Land and buildings - at cost	75,065	75,746
Less: Accumulated depreciation	(2,405)	(1,083)
	<u>72,660</u>	<u>74,663</u>
Freehold improvements - at cost	429	1,280
Less: Accumulated depreciation	(253)	(647)
	<u>176</u>	<u>633</u>
Plant and equipment - at cost	43,778	48,592
Less: Accumulated depreciation	(6,449)	(7,281)
	<u>37,329</u>	<u>41,311</u>
Fixtures and fittings - at cost	869	867
Less: Accumulated depreciation	(211)	(148)
	<u>658</u>	<u>719</u>
Computer equipment - at cost	577	564
Less: Accumulated depreciation	(223)	(193)
	<u>354</u>	<u>371</u>
Capital work in progress	883	232
	<u>112,060</u>	<u>117,929</u>

**Reconciliations**

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

	Land and buildings \$'000	Freehold improvements \$'000	Plant and equipment \$'000	Fixtures and fittings \$'000	Computer equipment \$'000	Capital work in progress \$'000	Total \$'000
Balance at 1 July 2022	74,663	633	41,311	719	371	232	117,929
Additions	-	-	61	2	60	2,387	2,510
Classified as held for sale (note 5)	(1,669)	(385)	(733)	-	-	-	(2,787)
Transfers in / (out)	1,339	-	391	-	-	(1,736)	(6)
Depreciation expense	(1,673)	(72)	(3,701)	(63)	(77)	-	(5,586)
Balance at 31 December 2022	<u>72,660</u>	<u>176</u>	<u>37,329</u>	<u>658</u>	<u>354</u>	<u>883</u>	<u>112,060</u>

# 8

## Note 7. Borrowings

	31 December 2022 \$'000	30 June 2022 \$'000
<i>Current liabilities</i>		
Borrowings	11,950	3,500
<i>Non-current liabilities</i>		
NAB construction facility	46,161	43,361

In April 2022 Cann executed documentation to enter into a \$15 million working capital facility with the National Australia Bank. The working capital facility has been used by Cann to support the scale up of the business and the next phase of its long-term growth strategy.

The working capital facility had an initial period with review on 30 November 2022 and thereafter for rolling 12-month periods. This facility has a drawn margin rate of 5.12% pa and a facility fee of 0.35% pa and it is a secured facility.

The working capital facility is cross-collateralised and co-defaulting with the construction facility. As at 31 December 2022 the facility had been drawn down by \$11.95 million leaving an undrawn balance of \$3.05 million.

The construction facility was renegotiated in April 2022 after the commissioning of the Mildura facility. Key terms of this facility include a base interest rate of the BBSY and a drawn margin rate of 5.42%. A facility fee of 0.35%pa is also applicable. As at 31 December 2022 the facility had been drawn down by \$46.61 million leaving a balance of \$3.39 million. Amortisation will commence from 31 May 2024 on a quarterly basis for a period of 10 years.

## Note 8. Issued capital

	31 December 2022 Shares	30 June 2022 Shares	31 December 2022 \$'000	30 June 2022 \$'000
Ordinary shares – fully paid	388,514,865	351,355,198	177,589	169,425

### Movements in ordinary share capital

Details	Date	Shares	Issue price	\$'000
Balance	1 July 2022	351,355,198		169,425
Shares issued under the Share Purchase Plan	7 December 2022	37,159,667	\$0.22	8,175
Transaction costs associated with issuing equity	30 November 2022	-		(11)
Balance	31 December 2022	388,514,865		177,589

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## Ordinary shares

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

On 7 December 2022, 37,159,667 shares were issued to shareholders at an issue price of \$0.22 per share after the successful completion of a Share Purchase Plan.

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

## Share buy-back

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

## Note 9. Reserves

	31 December 2022 \$'000	30 June 2022 \$'000
Foreign currency reserve	(167)	(180)
Share-based payments reserve	176	98
	<u>9</u>	<u>(82)</u>

Movement in the share-based payments reserve of \$0.078 (30 June 2022: \$0.647) is attributable to vesting charges from performance rights issued in the prior year.

## Note 10. Contingent liabilities and Capital Commitments

The Group has given a bank guarantee of \$50,000 (2021: \$50,000) for their operating premises lease of their Northern Facility.

## Note 11. Events after the reporting period

On 10 January 2023 Cann Group announced the appointment of Mr Peter Koetsier as CEO of the Company. Mr Koetsier commenced in the role on 16 January 2023.

On 19 January 2023 Cann Group announced that it had received the preliminary results for its Phase III clinical trial. The trial compared the efficacy of low dose Satipharm® CBD capsules to placebo in treating sleep disturbances. The preliminary view of the analysis of the primary end-points have not shown a statistically superior response compared to placebo. A delay in the submission of the registration application to the Therapeutic Goods Administration (TGA) is now expected for this indication. Upon receipt of the full data set (including the secondary end-points) and report of the clinical trial Cann Group will evaluate the data and review its approach for this indication.

On 9 February 2023 Cann Group issued 2,138,422 performance rights to employees pursuant to the terms of the Company's Long Term Incentive Plan. Additionally, 4,500,000 options were issued to Mr Peter Koetsier under the Company's Employee Share Option Plan (ESOP) as part of his employment agreement as announced 10 January 2023.

The performance rights were issued to senior employees as part of the Company's annual employee review process. Performance shares will be issued on a pro-rata basis to those employees if certain performance milestones (as specified by the Board) are met within three years after the grant date.

4,500,000 options were issued to Mr Peter Koetsier, Cann's Chief Executive Officer under the Company's newly established ESOP. The options will vest over three (3) years in equal tranches of 1.5 million options with the first tranche vesting 12 months after the issue date.

## Note 12. Earnings per share

	31 December 2022 \$'000	31 December 2021 \$'000
Loss after income tax	(18,844)	(8,278)
	<b>Number</b>	<b>Number</b>
Weighted average number of ordinary shares used in calculating basic earnings per share	352,735,883	298,542,295
Weighted average number of ordinary shares used in calculating diluted earnings per share	352,735,883	298,542,295
	<b>Cents</b>	<b>Cents</b>
Basic earnings per share	(5.34)	(2.77)
Diluted earnings per share	(5.34)	(2.77)

## 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 2022 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  
24 February 2023

31 DECEMBER 2022

# 10 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 entity), which comprises the consolidated statement of financial position as at 31 December 2022, 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 the consolidated entity 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 2022 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 consolidated entity in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

#### **Material Uncertainty Related to Going Concern**

We draw attention to Note 1 in the financial report, which indicates that the consolidated entity incurred a net loss of \$18,844,000 during the half year ended 31 December 2022 and, for the period, the consolidated entity's net cash outflows used in operations was \$11,968,000. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the consolidated entity's ability to continue as a going concern. Our conclusion is not modified in respect of this matter.

## 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.


## 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 2022 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.



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



**A. A. Finnis**  
Director  
Melbourne, 24 February 2023