CANN
GROUP LIMITED

ASX ANNOUNCEMENT

08 MAY 2024

Cann Group re-issues Financial Statements for the Half Year ended 31 December 2023

08 May 2024 – Cann Group Limited (ASX: CAN) (**Cann** or the **Company**) today re-issued its financial results for the six months ending 31 December 2023 (**Half Year Results**).

The Company first released its Half Year Results on 29 February 2024 (**First Release Date**). However, the auditors did not express a conclusion on that half-year financial report of Cann Group Limited due to being unable to obtain sufficient and appropriate review evidence as to whether the Group may be able to obtain sufficient funding in order to continue as a going concern within twelve months of the date of that review conclusion (being 29 February 2024).

Subsequently, the auditors have reviewed additional evidence and performed necessary review procedures surrounding events that have occurred since the First Release Date to support its view on going concern and have now re-issued an unmodified review conclusion with respect to the Half Year Results. Whilst a material uncertainty relating to going concern is included in the auditor's review conclusion, the auditor's conclusion is not modified in respect of this matter. The reissued Half Year Results contain no other changes from the Half Year Results issued on 29 February 2024 except for note 1 and note 15 in relation to going concern and subsequent events.

For more detailed commentary on the Half Year Results themselves, investors should refer to the Company's release on 29 February 2024.

The Company will keep the market updated with further progress regarding the ASX suspension.

Authorised for release by the Board of Directors of Cann Group Limited.

For all other information please contact:

Jenni Pilcher
Executive Director & Interim CEO
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Steven Notaro
Company Secretary
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About Cann Group
Cann Group Limited (ABN 25 603 949 739) is enhancing patients' lives by developing, producing, and supplying innovative cannabis medicines. The Company has research facilities and corporate headquarters in Melbourne and operates a state-of-the-art large-scale cultivation and GMP manufacturing facility near Mildura, Victoria. Cann Group supplies a range of dried flower and oil products, as well as active pharmaceutical ingredients and extracts, to customers in Australia and around the world. Cann Group also owns Satipharm and its patent-protected capsule technology. **Learn more at:** www.canngrouplimited.com | www.satipharm.com

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 2023
Previous period	For the half year ended 31 December 2022

2. Results for announcement to the market

				$'000
Revenues from ordinary activities	up	45.8%	to	8,487
Loss from ordinary activities after tax	down	23.9%	to	(14,338)
Loss for the half year	down	23.9%	to	(14,338)

	31 December 2023 Cents	31 December 2022 Cents
Basic loss per share	3.40	5.34
Diluted loss per share	3.40	5.34

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 $14,338,000 (31 December 2022: $18,844,000).

3. Net tangible assets

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	11.59	18.83

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 Financial Report. The auditors have re-issued an unmodified review conclusion with respect to the Half Year Results. Whilst a material uncertainty relating to going concern is included in the auditor's review conclusion, the auditor's conclusion is not modified in respect of this matter.

11. Attachments

Details of attachments (if any):
The Half Year Financial Report of Cann Group Limited for the half year ended 31 December 2023 is attached.

12. Signed

Dr Julian Chick

Non-executive Chairman
Melbourne

Date: 08 May 2024

31 DECEMBER 2023

HALF YEAR FINANCIAL REPORT

Cann Group Limited
ABN 25 603 949 739

CONTENTS

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 (deregistered on 2 December 2023), Satipharm Canada Limited and Phytotech Therapeutics Ltd (together, the Consolidated Group). These financial statements are for the half year ended 31 December 2023. 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 **8**. The Directors' Report is not part of the financial statements.

1 CORPORATE DIRECTORY

Directors
Dr Julian Chick (Non-executive Chairman)
Mr Doug Rathbone AM (Non-executive Director)
Ms Jenni Pilcher (Executive Director & Interim CEO)
Mr Robert Barnes (Non-executive Director)

Chief Executive Officer
Ms Jenni Pilcher

Company Secretary
Mr Steven Notaro

Registered office
Ground Floor
262 Lorimer Street
Port Melbourne
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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)

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 2023.

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.

Dr Julian Chick (Non-executive Chairman) *appointed 28 August 2023*
Mr Allan McCallum AO (Non-executive Chairman) *resigned 28 August 2023*
Mr Doug Rathbone AM (Non-executive Director)
Ms Jenni Pilcher (Executive Director & Interim CEO)
Mr Robert Barnes (Non-executive Director)

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 $14.34 million (31 December 2022: $18.84 million).

The Group's basic and diluted loss per share is 3.40 cents per share (2022: 5.34 cents per share). The weighted average number of shares used to calculate the basic and diluted earnings per share is 421,144,668 (2022: 352,735,883).

The net assets of the Group are $50.31 million as at 31 December 2023 (30 June 2023: $59.26 million).

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Review of operations

Production and sales

In the first half of FY24, Cann Group sales revenue increased by $2.67 million, or 45.8%, compared to the prior comparative period. This growth was primarily driven by a combination of securing new contracts and advancing existing relationships with domestic white label customers. The period concluded with a series of successful customer tours of Cann's R&D facility, which not only showcased the Company's pipeline of new, high-quality cultivars but also laid the groundwork for contract negotiations for exclusive white label opportunities.

Contract manufacturing remained a consistent contributor to revenue, reflecting the reliability and future opportunity of this segment of the business based on Cann's GMP facility. The strategic re-launch of the Botanitech range in December has shown promising results, with early uptake of new product lines suggesting a favourable opportunity for revenue growth in the approaching period. Amid the evolving local market dynamics, Cann has seized opportunities to broaden revenue-generating activities through the Mildura facility and strategically repositioning the Company's offerings in the Australian market. Overall, the first half of the year underscores Cann Group's strong performance and strategic vision for sustainable growth.

Mildura facility

The Company's Mildura facility has continued to make progress in the first half of FY24, as projected yield markers and improvements in flower quality were both achieved. The glasshouse area under cultivation was doubled in July, with further portions of the facility being initiated in the ensuing months. Q2 saw continuous month-on-month growth of dry inhalable flower being produced, with 1.94 tonne of dried flower being manufactured in the October-December quarter. Further growth led to full capacity harvests in January 2024, following two months of planting and managing crops at this scale. The second week of January saw all commissioned glasshouse footprint full for the first time in Cann history.

Jar-packing and labelling activities also saw strong advancement across the half year, with an 87% increase in packing and a 95% increase in labelling activities relative to the previous period. The facility also reached full integration of the hang-drying process, with all harvests in January and into the future to be hang-dried, producing greater aroma and appearance to the product.

Another key focus throughout the year to date has been the introduction of new cultivars at the facility, with commercial volume levels of production having occurred for four new cultivars as well as propagation trials commencing on a further seven new cultivars. Increased emphasis on the Company's R&D capabilities, in addition to these yield and quality improvements, are the key factors facilitating Cann Group's focus of providing a world-class product portfolio to its existing and future customers.

Research and Development

Cann has continued to identify and develop new cultivars utilising genetics sourced from its breeding program, some in collaboration with Agriculture Victoria and from leading overseas breeders. A pipeline of unique lines is progressing through a phased development program that will ultimately allow selection of elite commercially viable lines with top production traits and customer desirables. The first of these new, elite lines will be in commercial production in the second half of 2024 with a plan to continue to advance more over the coming 12 months.

The Cooperative Research Centres Projects and Department of Primary Industries (CRCP) funded project “Growing the medicinal cannabis industry – precision farming to pharmaceuticals” involving NSW DPI, Southern Cross University, The University of Newcastle and Aglive was completed at the end of 2023. One of the major achievements included completion of a small Phase 1 pharmacokinetic study of oral administration of Cann’s CBD formulations in 12 healthy males. This study showed the maximum concentration (Cmax) delivered by Cann’s Australian and Swiss manufactured Satipharm capsules was around three times greater than that of the reference CBD oil, and this was achieved after 1.8 and 2.4 hours respectively – compared to 6.6 hours for the oil. Both capsules also produced a small increase in the bioavailability of the CBD itself, compared to the oil. This study confirms that Cann’s Australian manufacturing process produces a bioequivalent capsule to the Swiss made capsule and will inform decision making by healthcare practitioners and improve treatment options for patients.

Development of the Satipharm portfolio continued in the period, with THC-containing capsules manufactured including terpenes and novel colorants. The data from these trials has allowed Cann to more precisely target key customer requirements, as well as building a high level of confidence in the formulation of products with multiple actives.

Further developments in the tissue culture project with La Trobe University as part of the ARC Research Hub for Medicinal Agriculture were proven successful at the R&D facility and the next half year will see transfer of micropropagated plantlets from tissue culture to the Mildura facility. This development will allow for replacement of motherplants from a sterile source and will also reduce the footprint required to maintain and replenish motherplants.

Funding

On 28 July 2023, the Company announced that it had raised $4.46 million after strong retail support from existing shareholders, in a non-renounceable rights issue, which was first announced on 15 June 2023. The offer, which was intended to raise approximately $11.7 million, had two components.

Firstly, it included an entitlement offer which provided Eligible Shareholders with the opportunity to subscribe for one (1) new share for every four (4) existing shares held at $0.12 (12 cents) per share with one (1) free attaching option for every two (2) shares subscribed for and issued, with an exercise price of $0.22 (22 cents) per share and an exercise period of 18 months.

Secondly, Cann also offered Eligible Shareholders who subscribed for their full entitlement under the Entitlement Offer the opportunity to increase their shareholding in the Company should there be any shortfall under the Entitlement Offer.

On 17 October 2023, Cann Group received a $3.5 million R&D tax incentive rebate for the 2023 financial year, related to eligible R&D activities.

On 21 November 2023, the Group announced that it raised A$2 million via entry into a convertible securities facility with Obsidian Global GP, LLC (Obsidian). The Group will have access to further drawdowns of up to A$13 million in total (with no one drawdown being more than A$3 million), subject to agreement between the parties. Under the facility, Cann will also issue Obsidian with securities convertible into fully paid ordinary shares in the Company based on the agreed calculation described previously.

The funds raised will provide working capital to assist the Company in achieving its 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

As previously announced on 27 June 2023, Allan McCallum AO, retired from the board effective 28 August 2023. Dr Julian Chick's appointment as Non-executive Chairman took effect on 28 August 2023.

On 4 December 2023, the Company announced the resignation of Ms Deborah Ambrosini whose duties as Chief Financial Officer (CFO) ceased on 22 December 2023. Her duties as Company Secretary ceased immediately, with Cann Group's Head of Legal and Regulatory Affairs, Mr Steven Notaro, appointed to the role on 4 December 2023. On 8 January 2024, Mr Tony Di Pietro was appointed to the role of CFO and formally commenced on 15 April 2024. Mr Di Pietro will also act as joint Company Secretary with Steven Notaro.

On 21 March 2024, Peter Koetsier, resigned from the position as Chief Executive Officer. Non-Executive Director, Ms Jenni Pilcher, assumed an Executive Director role on 1 April 2024 for a fixed period of four months.

Significant changes in the state of affairs

Revenue growth

Consolidated year to date revenue at 31 December was $8.49 million, representing 46% growth on the corresponding period last year. Operations at the Mildura facility continue to see ongoing process improvements, with the most notable recent change being the facility moving to full hang-drying for all crops from January and into the future. The introduction of new products in 2024, combined with growth prospects from the relaunch and expansion of Botanitech, new GMP-packing agreements, and ongoing progress in multiple long-term supply arrangements, is expected to create significant business development opportunities for Cann.

Extension of NAB loan facilities

As at 19 January 2024, the company agreed with its lender, National Australia Bank ('NAB') to a deferral of the quarterly repayment of the principal loan amounts of the NAB Construction facility for 12 months, with repayment deferred from May 2024 to commence May 2025.

On 15 March 2024, the Company executed an extension of its Working Capital Facility expiry date from 30 November 2024 to 31 March 2025. Since then, NAB have provided approval to extend this facility to 31 May 2025.

Sale of Southern facility

As at 31 December 2023, the company recognised a receivable for $1.9 million in respect of the contracted proceeds following the disposal of the Southern Facility business assets. On 22 March 2024, the Company received these funds. An amount of $1.5 million was applied to the Company's NAB temporary excess facility which has now been closed.

Convertible securities facility

Cann Group raised A$2 million via entry into a convertible securities facility with Obsidian in November. Cann will also have access to further drawdowns of up to A$13 million in total, with no one drawdown being more than A$3 million. Under the facility, Cann will issue Obsidian with securities convertible into fully paid ordinary shares in the Company based on an agreed calculation. The funds raised will provide working capital to assist the Company in achieving its production and cultivation targets. On 6 May 2024, Obsidian waived their rights to a prepayment of any notes outstanding on this date from the funds raised via the secured debt facility in the section below.

Secured debt facility from Australian private credit fund

On 6 May 2024, the Company entered into a debt facility agreement (Finance Agreement) whereby it will borrow $5 million (Principal) from a private Australian credit fund ("Fund"). The Principal loan amount will incur interest at a rate of 15% per annum, payable monthly in arrears. The debt facility is secured over the Mildura facility under a second mortgage and will expire on 7 May 2025. As part of this financing, an Intercreditor Deed has been entered into between NAB (Secured Part A) and the Fund (Secured Party B) and Cann (Grantors/Borrower) (the Deed) which recognises that certain security granted by Cann to NAB under an existing finance agreement is common with security being granted to the Fund under the terms of a Loan by the Fund to Cann, and further provides that NAB securities have priority over the Fund securities for the payment of amounts secured at any time under the NAB Finance Agreement. Also as part of the financing, the Convertible Note Holder has granted a waiver to its right to call for an early redemption of the outstanding Convertible Securities, and in respect of their right to prepayment of the initial drawdown from funds raised under this financing or the Group's balance sheet as at the date of the financing.

Receipt of FY23 R&D tax rebate

In October, Cann received a $3.5 million R&D tax incentive rebate for the 2023 financial year. The rebate relates to eligible R&D activities conducted by the Company, including its in-house research and those activities conducted through its strategic partnerships with key research partners. The Australian Government's R&D Tax Incentive program provides companies with a tax offset for eligible R&D activities. The funds received will be reinvested into the continued development of Cann's end-to-end capabilities of cultivating and manufacturing GMP grade medicinal cannabis products.

Asset sale

On 18 March 2024, the Company entered into a sale agreement for surplus equipment for proceeds of $1.7 million if payment is made entirely in cash, or $1.9 million if payment is made by way of a combination of equity and cash if both parties mutually agree. The Company has received the first deposit of $100k and expects to receive the remaining $1.6 million on or before 30 June 2024 in accordance with the terms of the sale agreement.

NAB waiver

On 6 May 2024, NAB provided a letter of waiver, waiving its right to any further action for both the historical breach (Gearing Ratio as at 31 Dec 2023) and the current breach (Gearing Ratio as at 31 Mar 2024).

Further information on events subsequent to balance date can be found in Note 15 to the financial statements.

Dividends

No dividend has been proposed or paid during the half year period ended 31 December 2023.

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.

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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

Dr Julian Chick
Non-executive Chairman
08 May 2024

31 DECEMBER 2023

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AUDITOR’S INDEPENDENCE DECLARATION

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To the directors of Cann Group Limited

As lead auditor for the review of Cann Group Limited for the half-year ended 31 December 2023, I declare that, to the best of my knowledge and belief, 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.

This declaration is in respect of Cann Group Limited and the entities it controlled during the period.

William Buck

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

R. P. Burt
Director
Melbourne, 8 May 2024

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31 DECEMBER 2023

HALF YEAR FINANCIAL REPORT

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CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the half year ended 31 December 2023

	Note	31 December 2023 $'000	31 December 2022 $'000
Revenue from customer contracts	3	**8,487**	5,819
Other income	4	**2,563**	2,235
Total revenue and other income		**11,050**	8,054
Expenses			
Administration and corporate costs	5	**(5,009)**	(3,862)
Direct production costs		**(5,016)**	(5,971)
Employee costs		**(7,027)**	(7,041)
Research and development costs		**(380)**	(2,571)
Depreciation and amortisation expense		**(5,698)**	(6,087)
Total expenses		**(23,130)**	(25,532)
Loss before finance costs and income tax expense		**(12,080)**	(17,478)
Finance costs		**(2,258)**	(1,366)
Loss before income tax expense		**(14,338)**	(18,844)
Income tax expense		**-**	-
Loss after income tax expense for the half year		**(14,338)**	(18,844)
Other comprehensive income / (loss)			
Items that may be reclassified subsequently to profit or loss			
Movement in foreign currency translation reserve		**(9)**	13
Other comprehensive loss for the half year, net of tax		**(9)**	13
Total comprehensive (loss) for the half year		**(14,347)**	(18,831)
		Cents	**Cents**
Basic loss per share	16	**3.40**	5.34
Diluted loss per share	16	**3.40**	5.34

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

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2023

	Note	31 December 2023 $'000	30 June 2023 $'000
Assets			
Current assets			
Cash and cash equivalents		**1,636**	765
Trade and other receivables	7	**3,339**	5,643
Prepayments		**1,293**	2,105
Inventories		**11,170**	11,406
Biological assets		**1,223**	790
		18,661	20,709
Non-current assets classified as held for sale		**-**	493
Total current assets		**18,661**	21,202
Non-current assets			
Property, plant and equipment	6	**104,455**	107,396
Intangible assets		**112**	215
Trade and other receivables	7	**-**	514
Financial assets at fair value through profit or loss		**76**	139
Total non-current assets		**104,643**	108,264
Total assets		**123,304**	129,466
Liabilities			
Current liabilities			
Trade and other payables	8	**6,589**	7,853
Contract liabilities		**263**	435
Employee entitlements		**743**	817
Borrowings	9	**64,079**	15,290
Convertible notes	10	**1,150**	-
Total current liabilities		**72,824**	24,395
Non-current liabilities			
Employee entitlements		**171**	135
Borrowings	9	**-**	45,675
Total non-current liabilities		**171**	45,810
Total liabilities		**72,995**	70,205
Net assets		**50,309**	59,261
Equity			
Issued capital	11	**182,384**	177,368
Reserves	12	**398**	123
Accumulated losses		**(132,473)**	(118,230)
Total equity		**50,309**	59,261

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 2023

	Issued capital $'000	Share based payments reserve $'000	Convertible note reserve $'000	Foreign currency translation reserves $'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 income for the half year, net of tax	-	-	-	13	-	13
Total comprehensive income/(loss) for the half year	-	-	-	13	(18,844)	(18,831)
Transactions with owners in their capacity as owners:						
Contributions of equity, net of transaction costs	8,164	-	-	-	-	8,164
Share-based payments	-	78	-	-	-	78
Balance at 31 December 2022	177,589	176	-	(167)	(103,284)	74,314

	Issued capital $'000	Share based payments reserve $'000	Convertible note reserve $'000	Foreign currency translation reserves $'000	Accumulated losses $'000	Total equity $'000
Balance at 1 July 2023	177,368	262	-	(139)	(118,230)	59,261
Loss after income tax expense for the half year	-	-	-	-	(14,338)	(14,338)
Other comprehensive loss for the half year, net of tax	-	-	-	(9)	-	(9)
Total comprehensive income / (loss) for the half year	-	-	-	(9)	(14,338)	(14,347)
Transactions with owners in their capacity as owners:						
Issue of shares related to capital raise	4,457	-	-	-	-	4,457
Issue of shares related to services	82	-	-	-	-	82
Issue of placement and commitment shares	768	-	-	-	-	768
Issue of options to convertible note holders	-	-	80	-	-	80
Less: transaction costs	(291)	-	-	-	-	(291)
Share-based payments (note 12)	-	299	-	-	-	299
Transfer – expiry of options	-	(95)	-	-	95	-
Balance at 31 December 2023	182,384	466	80	(148)	(132,473)	50,309

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

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CONSOLIDATED STATEMENT OF CASH FLOWS

For the half year ended 31 December 2023

	Note	31 December 2023 $'000	31 December 2022 $'000
Cash flows from operating activities			
Receipts from customers		**10,175**	5,373
Payments to suppliers and employees		**(19,734)**	(21,690)
Interest received		**18**	1
Other income – R&D tax incentive rebate		**3,468**	4,348
Net cash used in operating activities		**(6,073)**	(11,968)
Cash flows from investing activities			
Payments for property, plant and equipment	6	**(2,324)**	(2,538)
Proceeds from the sales of assets		**-**	310
Net cash used in investing activities		**(2,324)**	(2,228)
Cash flows from financing activities			
Proceeds from borrowings	9	**3,115**	11,508
Proceeds from issue of convertible notes	10	**2,000**	-
Proceeds from issue of shares	11	**4,457**	8,175
Convertible notes transaction costs		**(135)**	-
Share issue transaction costs		**(169)**	(10)
Repayment of lease liabilities		**-**	(201)
Net cash from financing activities		**9,268**	19,472
Net increase in cash and cash equivalents		**871**	5,276
Cash and cash equivalents at the beginning of the financial half year		**765**	1,914
Cash and cash equivalents at the end of the financial half year		**1,636**	7,190

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

8 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Material accounting policy information

These general purpose financial statements for the interim half year reporting period ended 31 December 2023 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 2023 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 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 net losses for the half year ended 31 December 2023 of $14.34 million (31 December 2022: $18.84 million), a net current asset deficiency of $54.16 million as at 31 December 2023 (30 June 2023: net current asset deficiency of $4.27 million) and has a net cash outflow from operating activities of $6.07 million for the period ended 31 December 2023 (31 December 2022: $11.97 million) These conditions give rise to a material uncertainty that may cast significant doubt on the consolidated entity's ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

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, and therefore it is appropriate to adopt the going concern basis in the preparation of the half-year financial report after consideration of a range of factors, not limited to, but including the following:

<u>Cashflows from funding and asset sales</u>

(a) In November 2023 the Group executed an unsecured Convertible Securities and Share Placement Agreement for an aggregate amount of up to $15.0 million, with an initial drawdown of $2.0 million. The proceeds contributed to the Group's strategic investment in expanding GMP manufacturing capabilities at Mildura. Funds have been used to assist with working capital over the medium term, with no further drawdowns in the period since 31 December 2023. Subsequent to 29 February 2024, the Convertible Note holder has provided a waiver to the Group in respect of their right to repayment of the initial drawdown.

(b) Cash on hand as at 31 December 2023 is $1.64 million, and $0.75 million as at 31 March 2024. The Group has a $15.6 million Working Capital facility that it can draw on during the year. The facility was drawn to $14.8 million at 31 December 2023 leaving a balance available of $0.8 million. At 31 March 2024 the remaining balance was $0. The Group also has access to a $1.5 million Temporary Excess Facility that had not been utilised as at 31 December 2023. This Temporary Excess ceased when proceeds were received for the sale of Southern Facility assets in March 2024 as disclosed in (f) below.

(c) Existing NAB debt arrangements have been modified and agreed with the lender after 31 December 2023, providing further funding flexibility as follows:

(i) An increase of the Temporary Excess Facility from $1.5 million to $1.9 million, with an expiry date of the earlier of 1 March 2024 and when proceeds are received for the sale of Southern assets. Subsequent to 29 February 2024, this facility was repaid in full.

(ii) On 19 January 2024, extended the repayment of the quarterly principal loan Construction Facility to be deferred by 12 months from 31 May 2024 to 31 May 2025.

(iii) Amending the current 90-day loan interest period to 150 days. Subsequent to 29 February 2024, the interest payment period has been further extended on both Facilities to 180 days.

(iv) Subsequent to 29 February 2024, effective 15 March 2024 the Working Capital Facility expiry date has been extended from 30 November 2024 to 31 March 2025; and more recently, NAB have provided approval to extend this facility to 31 May 2025.

(v) On 6 May 2024, NAB provided a letter of waiver, waiving its right to any further action for both the historical breach (Gearing Ratio as at 31 Dec 2023) and the current breach (Gearing Ratio as at 31 Mar 2024).

(vi) On 6 May 2024, an Intercreditor Deed has been entered into between NAB (Secured Part A) and DCF (Secured Party B) and Cann (Grantors/Borrower) (the Deed) which recognises that certain security granted by Cann to NAB under an existing finance agreement is common with security being granted to DCF under the terms of a Loan by DCF to Cann, and under the Deed provides that NAB securities have priority over DCF securities for the payment of amounts secured at any time under the NAB Finance Agreement.

(d) On the 6 May 2024, the Group entered into a debt facility agreement for $5.0 million (before costs) from a private Australian credit fund which will be used to meet the group's working capital requirements. Further information on the terms of this facility can be found in Note 15.

(e) On 30 April 2024, the Group entered into two short term loans, each for $150,000, to accelerate the Group's import strategy. The loans have a 3-month term, and interest is payable at 20% per annum.

(f) Subsequent to 29 February 2024, the Group has realised additional cash funding to date and over the forecast period from the following asset sales:

(i) sale of a range of equipment surplus to Cann's needs for cash proceeds of $1.7 million. Pursuant to the sale agreement, the acquirer will pay two deposits totalling $200,000 by 19 April 2024, with the final cash proceeds balance of $1.5 million at settlement, which is to occur on or before 30 June 2024.

(ii) the final consideration receivable of $1.9 million recognised as a receivable as at 31 December 2023 was received as at 22 March 2024 for the sale of business assets at the formerly owned Southern cultivation and manufacturing facility. As disclosed above, the cash proceeds were used to extinguish in full the Temporary Excess Facility of $1.9 million executed with the NAB, of which $1.5 million had been utilised as at the repayment date.

(g) The Group is in active discussions with several interested parties to provide additional funding to the Group to fund its operations in the medium term. These additional funding options currently being pursued include a sale and leaseback of the Mildura facility, and a refinancing of existing debt.

Cashflows from operations

(h) The Group's revenue continues to grow at a significant rate with the Group having already billed 146% or 1.5 times of the sales revenue recorded in the prior corresponding period. Revenue growth has accelerated this half year across Cann's portfolio, including large repeat orders for oil and flower products. 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.

(i) Streamlining of commercial operations, which includes centralising key activities at Mildura, are expected to continue this half year.

(j) Demand for high quality dried flower products remains high in Australia. Continuous improvement in flavour profiles, bud aesthetics and terpenes, along with diversity in cultivars, are increasingly becoming priorities for customers. This represents a significant opportunity for Cann Group given the strong improvements the Group has made to its flower quality. Cann is also well placed to meet the growing demands for product exclusivity and consistent supply via its Mildura facility.

(k) Cann's R&D facility has continued its successful in-house breeding program incorporating exclusively sourced, elite, modern, exotic varieties which is resulting in a pipeline of exciting new strains emerging from Mildura in 2024. With ongoing process improvements in the Mildura operations over the calendar year, most notably the introduction of hang-drying techniques for all crops from 1 January 2024, and increased capacity, Cann is strategically positioned to match or exceed the quality and variety of imported flowers. The introduction of new products expected in the current financial year and beyond the 2024 financial year, combined with growth prospects from the relaunch of Botanitech, new GMP-packing agreements, and ongoing progress in multiple long-term supply arrangements, is expected to create significant business development opportunities for Cann.

(l) Subsequent to 29 February 2024, the Group has embarked on a cost efficiency program. This program includes an executed restructure of staffing and the exit of the Group's leased office in Port Melbourne, both of which will contribute cash savings of $1.2 million per annum (before costs). The Group continues to realise further cash related efficiencies in its Mildura production facility which continue to reduce the need for casual labour.

(m) Subsequent to 29 February 2024, the Group estimates that it will receive $1.8 million from the Australian Taxation Office under the federal government's Research and Development (R&D) Tax Incentive program for the year ended 30 June 2024. The R&D tax credit is expected to be received during the first quarter of FY2024. The Group has made successful claims under this program in the past, and received an amount of $3.5 million for the year ended 30 June 2023 (2022: $4.3 million).

The Directors have 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. This forecast includes reduction of discretionary spending and other cost-saving measures, as well as additional funding options being pursued as disclosed above.

Based on the cash flow forecast, 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.

The financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or liabilities that might be necessary should the Group not continue as a going concern and meet its debts as and when they become due and payable.

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 and vendors 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.

Convertible notes

The Group has convertible notes (CN) on issue at the reporting date, including the CN host debt and the CN embedded derivative. The determination of the fair value of the host debt and embedded derivative is based on certain assumptions, including but not limited to the expected execution of the conversion elements of the CNs, the Group's share price used to calculate the daily volume weighted average prices (VWAPs) during the 15 trading days prior to maturity, volatility and those macroeconomic factors which influence the aforementioned 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 $2.74 million (30 June 2023 $7.29 million) arising from current half year tax losses of $14.34 million (30 June 2023 $33.79 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 $29.37 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 Group 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. The majority of the Group's assets are held within Australia.

Note 3. Revenue from customer contracts

	31 December 2023 $'000	31 December 2022 $'000
Australia	8,149	5,496
New Zealand	240	-
Europe and other countries	98	323
Total revenue from customer contracts	**8,487**	**5,819**

All revenue is recognised at a point in time.

Note 4. Other income

	31 December 2023 $'000	31 December 2022 $'000
Net fair value gain / (loss) on financial assets	**(19)**	(561)
R&D tax refund	**29**	2,520
Interest income	**16**	-
Gain on sale of Southern facility	**1,734**	-
Contract manufacturing and genetic access rights	**803**	276
Total other income	**2,563**	2,235

The R&D tax rebate is recoverable on all eligible research and development expenses incurred during the period 1 July 2022 to 30 June 2023. An accrual to June 2023 was raised in year ending June 2023 after a review was conducted by the Group's independent tax specialists. Cash amount received in this half year was $3.5 million, in line with the June 2023 receivable.

Following the completion in November 2023 of the Southern facility asset sale to an external party, a gain of $1.7 million has been recognised in the period. As at 31 December 2023, the Group recorded a receivable for the consideration agreed of $1.9 million.

Note 5. Administration and corporate costs

	31 December 2023 $'000	31 December 2022 $'000
Other corporate and administration expenses	**4,084**	2,654
Insurance expenses	**622**	680
Legal and consultancy expenses	**303**	528
	5,009	3,862

Note 6. Property, plant and equipment

	31 December 2023 $'000	30 June 2023 $'000
Non-current assets		
Land and buildings - at cost	**77,409**	75,991
Less: Accumulated depreciation	**(5,711)**	(4,039)
	71,698	71,952
Freehold improvements - at cost	**429**	429
Less: Accumulated depreciation	**(321)**	(287)
	108	142
Plant and equipment - at cost	**44,804**	44,203
Less: Accumulated depreciation	**(13,523)**	(10,031)
	31,281	34,172
Fixtures and fittings - at cost	**890**	889
Less: Accumulated depreciation	**(340)**	(276)
	550	613
Computer equipment - at cost	**582**	567
Less: Accumulated depreciation	**(352)**	(289)
	230	278
Capital work in progress	**588**	239
	104,455	107,396

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 2023	71,952	142	34,172	613	278	239	107,396
Additions	-	-	63	1	34	2,226	2,324
Transferred from assets held for sale	-	-	493	-	-	-	493
Disposals	-	-	(402)	-	-	(1)	(403)
Write-off of assets	-	-	-	-	(19)	-	(19)
Transfers in / (out)	1,418	-	447	-	-	(1,876)	(11)
Depreciation expense	(1,672)	(34)	(3,492)	(64)	(63)	-	(5,325)
Balance at 31 December 2023	71,698	108	31,281	550	230	588	104,455

Note 7. Trade and other receivables

	31 December 2023 $'000	30 June 2023 $'000
Current assets		
Trade receivables	**1,337**	1,592
Other receivables	**2,002**	4,051
	3339	5,643
Non-current assets		
Trade receivables	**-**	514

Included in other receivables as at 31 December 2023 is the receivable related to Southern assets of $1.8 million. Other receivables in year ending June 2023 includes an accrual of $3.5 million for the R&D tax incentive to 30 June 2023.

Note 8. Trade and other payables

	31 December 2023 $'000	30 June 2023 $'000
Trade payables	4,219	4,985
Accrued expenses	1,571	1,568
Other payables	799	1,300
Total trade and other payables	**6,589**	**7,853**

Note 9. Borrowings

	31 December 2023 $'000	30 June 2023 $'000
Current liabilities		
NAB Working Capital facility	**14,801**	14,020
NAB Construction facility (note 15)	**49,039**	1,200
NAB Leasing facility	**239**	70
	64,079	15,290
Non-current liabilities		
NAB Construction facility	**-**	45,511
NAB Leasing facility	**-**	164
	-	45,675

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.

On 13 December 2023, $0.60 million was transferred from the Construction facility to the Working Capital facility. Construction facility was reduced by $0.60 million to $49.40 million and the Working Capital facility increased by $0.60 million to $15.60 million.

The Working Capital facility is cross-collateralised and co-defaulting with the Construction facility. This facility has a drawn margin rate of 6.4174% pa and a facility fee of 0.35% pa and it is a secured facility. As at 31 December 2023 the facility had been drawn down by $14.80 million leaving an undrawn balance of $0.80 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 6.7329%. A facility fee of 0.35%pa is also applicable. As at 31 December 2023 the facility had been drawn down by $49.04 million leaving a balance of $0.36 million. As at 19 January 2024, repayment of the facility has been deferred for 12 months from May 2024 to May 2025.

The executed facility agreement requires compliance with an asset gearing ratio covenant and as at 31 December 2023, this covenant measure was not met. Subsequent to period end, a loan covenant waiver was received from National Australia Bank (as lender) which confirmed the lender will not take any further action. As at 31 December 2023, the outstanding loan liabilities have been classified as current as a result of the covenant breach.

Note 10. Convertible notes

On 21 November 2023, the Company entered into a funding arrangement through an unsecured Convertible Note with Obsidian Global GP, LLC ('Noteholder'). The funding arrangement has an aggregate limit of up to $15 million.

On 27 November 2023, the Company issued 1,322,200 Convertible Notes to Obsidian Global GP, LLC for proceeds of US$1 per convertible note, and a face value of US$1.15 per convertible note as at 27 November 2023, in respect of which the Company received $2 million gross proceeds at the time of issue.

The facility has a limit of $15 million and maturity date of 18 months after the execution date, being 27 May 2025. As at 31 December 2023, the facility has an undrawn facility amount of $13 million with subsequent draw down tranches being permitted 90 days immediately after the previous tranche drawn and the maximum amount of each subsequent purchase to not exceed $3 million. Any subsequent tranche draw down up to a maximum of four (4) tranches is to be agreed by mutual agreement between Cann Group and the Noteholder, subject to Cann Group maintaining a market capitalisation of at least $35 million.

Upon issue of the Convertible Notes (Notes), the Company also issued 985,286 Commitment shares and 3,333,333 Placement shares for the purpose of incentivising the Noteholder into the transaction. The Commitment shares issued to the note holder were assessed at a fair value of $0.1 million and the Placement shares were assessed at a fair value of $0.4 million.

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As per the Convertible Note agreement, along with the entitlement for conversion of Notes into fully paid ordinary shares, the Noteholder was also issued 6,735,867 share options over fully paid ordinary shares, which are yet to be exercised as at 31 December 2023. The arrangement was valued using the Binomial model, with the fair value on grant date being $0.08 million. The options issued over fully paid ordinary shares had a $0.225 exercise price and expire 24 April 2026.

The options had the following valuation model inputs to determine the fair value at grant date:

Grant date	Expiry date	Share price at grant date	Exercise price	Expected volatility	Dividend yield	Risk-free interest rate	Fair value at grant date
27/11/2023	27/05/2025	$0.110	$0.225	61.90%	-	4.155%	$0.012

Whereby, the drawn down amount becomes due and payable, or the Noteholder at their discretion at any time prior to the maturity date, may elect to convert the convertible notes into shares. The convertible notes can be converted into shares on the following terms being the lesser of:

(a) 92% of the average of the 3 lowest daily VWAPs during the 15 Actual Trading Days prior to the relevant Conversion Notice Date, rounded down to the lowest $0.001; and
(b) The fixed conversion price.

Where the maximum number of shares that can be issued without shareholder approval is 40,000,000 and the fixed conversion price is defined as $0.1998.

As a result of the above, a conversion option exists which has resulted in an embedded derivative being recognised on initial recognition of the convertible notes in the financial statements of $0, due to the convertible feature being considerably out of the money at execution date. In addition to a FX embedded derivative on initial recognition of $0.06 million, on account of the face value being US$1.15, and the drawdown amount being $2 million was recognised. The valuation of the embedded derivatives at initial recognition were performed by an external valuation expert.

The convertible notes are unsecured.

As at 31 December 2023, all notes remain unconverted and outstanding. Further to the above, should Cann Group undertake a fund raising in excess of $2.5 million prior to the maturity date, the Noteholder may elect to require the Company to apply up to 20% of those funds to redeem Convertible Notes on issue.

Further to the above, 6,735,867 share options were issued to the lead broker, EverBlu Capital, as payment for their services in arrangement of the convertible note. The fair value of 6,735,867 options issued to the lead broker was $80,121. This cost was recognised in the share based payment reserve. See note 12 for further details in respect of Share Based Payments. Further to this, the Group incurred the following:

- a cash fee of $0.12 million paid to the lead broker, being 6% of the initial $2 million drawn down, and
- 2,662,938 ordinary shares were issued to the lead broker, EverBlu Capital, for a fair value of $0.29 million as payment for their services.

Valuation methodology applied in valuing Convertible Notes

Upon issue of the Convertible Notes in November 2023, the Group utilised an external valuation expert to value the Convertible Notes including the issued share options using the Binomial Option Pricing. The FX embedded derivative was valued using market observed pricing to determine the fair value.

Significant unobservable inputs in applying this technique include the Group's future share price, exercise price, expiry date and volatility used to calculate the 5 lowest daily volume weighted average prices (VWAPs) during the 20 trading days prior to maturity.

A Binomial Option Pricing valuation methodology has been used to determine the value of the Options issued to the Noteholder and Lead Broker and the spot price used in valuing the Placement Shares, Commitment Shares & Lead Broker Shares.

As at 31 December 2023, the value of the convertible note is as follows:

	31 December 2023 $'000	30 June 2023 $'000
Current liabilities		
Convertible notes – host debt at amortised cost	1,991	-
Convertible notes – embedded derivative at fair value through profit or loss	65	-
Convertible notes – cost of issuance of convertible notes (netted off against host debt liability)	(906)	-
	1,150	

Reconciliation of movements in convertible notes:

	2023 $'000
Face value of convertible notes upon issue	2,415
Cost of issuance of convertible notes	(351)
Discount to face value of convertible notes upon issue	(415)
Equity instruments issued at fair value	(555)
Amortisation of convertible notes	56
Value of unamortized future interest costs outstanding on convertible notes	1,150

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The Directors of the Company appointed an external valuation expert to perform a fair value valuation on the convertible notes and the related embedded derivatives at inception. The table below demonstrates the value of the embedded derivative and host liability:

	Consolidated	
	31 December 2023 $'000	30 June 2023 $'000
Current liabilities		
Convertible notes – host liability at amortised cost	1,085	-
Convertible notes – fair value of embedded derivative	65	-
Value of unamortized future interest costs outstanding on convertible notes	1,150	-
Face value of convertible notes	2,415	-

In fair valuing the host liability as at inception, an effective interest rate of 78% was applied which reflects the short-term nature and costs associated with issuance of the convertible notes.

As at 31 December 2023, the group has $0.08 million liabilities where the fair value measurement is based on quoted prices in active markets (Level 1 hierarchy) or significant unobservable inputs (Level 2 hierarchy). As at 31 December 2023 the fair value of the embedded derivative is measured using significant unobservable inputs (Level 3 hierarchy). There has been no change in the Group's valuation process, valuation techniques and types of inputs used in the fair value measurement at the end of the reporting period in comparison to the methodology upon inception. There have been no transfers between levels of fair value hierarchy during the period ended 31 December 2023.

Refer to note 13 for further information on financial instruments including significant unobservable inputs (Level 3 hierarchy).

Accounting policy for borrowings

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

The face value of the Convertible Note is deemed to be the value of the Conversion Right to a variable number of shares (derivative liability), the value of the Conversion right to a foreign currency (derivative liability) and residual debt liability component. The debt liability component of the Convertible Notes is amortised at each reporting period using the effective interest method. The derivative liability component is revalued at each reporting date over the life of the Convertible Notes.

Along with the entitlement for conversion of Notes into fully paid ordinary shares, the Noteholder & Lead broker were also each issued 6,735,867 options over fully paid ordinary shares, which have not been exercised as at 31 December 2023. The options issued over fully paid ordinary shares had a $nil exercise price and expire on 24 April 2026, and the valuation of which was performed in accordance with the consolidated entity's accounting policy consistent with that disclosed in the 30 June 2023 Annual Report.

The Noteholder Options represent a contractual obligation to issue a fixed number of shares and are considered a component of equity. As such we have assessed the fair value of the Options as at grant date on 27 November 2023 and they do not require revaluation at subsequent reporting dates. The lead broker options were treated as a transaction cost incurred in obtaining the facility and were apportioned over the Host debt liability, embedded derivative and equity components of the transaction.

The Group also issued 985,286 Commitment shares and 3,333,333 Placement shares for the purpose of incentivising the Noteholder into the transaction. These shares made up part of the residual equity component and accounted for in accordance with AASB 132 – Financial Instruments: Presentation.

In addition, 2,662,938 shares issued to the lead broker as payment for their services were treated as a transaction cost incurred in obtaining the facility and were apportioned over the host debt liability, embedded derivative and equity components of the transaction.

Note 11. Issued capital

	31 December 2023 Shares	30 June 2023 Shares	31 December 2023 $'000	30 June 2023 $'000
Ordinary shares – fully paid	433,255,102	388,614,865	182,384	177,368

Movements in ordinary share capital

Details	Date	Shares	Issue price	$'000
Balance	1 July 2023	388,614,865		177,368
Shares issued under the Entitlement Offer	1 August 2023	37,139,102	$0.12	4,457
Shares issued to CSIRO for payment of services	28 August 2023	520,118	$0.16	82
Shares issued under the Convertible Securities Agreement	21 November 2023	985,286	$0.11	108
Shares issued under the Convertible Securities Agreement	22 November 2023	3,333,333	$0.11	367
Shares issued under the Convertible Securities Agreement	22 November 2023	2,662,398	$0.11	293
Transaction costs associated with issuing equity		-	-	(291)
Balance	31 December 2023	433,255,102		182,384

Ordinary shares

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

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

Share buy-back

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

Note 12. Reserves

	31 December 2023 $'000	30 June 2023 $'000
Foreign currency translation reserve	**(148)**	(139)
Share-based payments reserve	**466**	262
Convertible note reserve	**80**	-
	398	(123)

The total expense of share-based payments recognised in the statement of profit or loss and other comprehensive income amounted to $0.3 million. The remaining fair value will be expensed in subsequent years in accordance with the specific service conditions of the rights and options.

Performance rights over ordinary shares

Movement in Performance Rights during the year	
Opening balance at 30 June 2023	2,930,858
Lapse of share based payments	658,392
Closing balance at 31 December 2023	2,272,466

Nil shares were issued on conversion of performance rights and nil performance rights were issued during the half year.

Options over ordinary shares

Movement in Employee Options during the year	
Opening balance at 30 June 2023	6,120,000
Lapse of share based payments	180,000
Closing balance at 31 December 2023	5,940,000

Nil shares were issued on conversion of options and nil options were issued during the half year.

Note 13. Fair value measurement

Fair value hierarchy

The following tables detail the Group's assets and liabilities, measured or disclosed at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being:

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

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

Level 3: Unobservable inputs for the asset or liability.

31 December 2023	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Assets / Liabilities				
Listed shares (assets)	76	-	-	76
Unlisted shares	-	-	-	-
Convertible notes – embedded derivative	-	-	65	65
Total liabilities	76	-	65	141

30 June 2023	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Assets / Liabilities				
Listed shares (assets)	94	-	-	94
Unlisted shares (assets)	-	45	-	45
Convertible notes – embedded derivative	-	-	-	-
Total liabilities	94	45	-	139

During the period from inception in November 2023 through to 31 December 2023, the fair value of the convertible note derivatives was unchanged. The fair value of the embedded derivative was $0.07 million as at 31 December 2023.

The embedded derivative financial instrument has been valued using available market rates. This valuation technique maximises the use of observable market data where it is available and relies as little as possible on entity specific estimates.

The sensitivity analysis undertaken on the unobservable inputs identified no material impact to the valuation at 31 December 2023.

There were no transfers between levels during the financial period.

Accounting policy for fair value measurement

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

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

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

For recurring and non-recurring fair value measurements, external valuers may be used when internal expertise is either not available or when the valuation is deemed to be significant. External valuers are selected based on market knowledge and reputation. Where there is a significant change in fair value of an asset or liability from one period to another, an analysis is undertaken, which includes a verification of the major inputs applied in the latest valuation and a comparison, where applicable, with external sources of data.

Note 14. Contingent liabilities and Capital Commitments

The Group does not have any contingent liabilities at 31 December 2023.

Note 15. Events after the reporting period

On 19 January 2024, NAB agreed to a deferral of repayment of the principal of the NAB Construction facility for 12 months, from 31 May 2024 to 31 May 2025.

During February 2024, a non-binding term sheet for finance which is subject to the completion of due diligence was signed with a third party. Subsequent to 29 February 2024, this financing arrangement has proceeded to due diligence, which is still ongoing.

On 15 February 2024, Rua Biosciences Limited (NZX:RUA) commenced legal proceedings against Cannoperations Pty Ltd, a wholly owned subsidiary of Cann Group Limited. The proceedings relate to a dispute between Cann and Rua in respect of a manufacturing and supply agreement, which Cann has sought to resolve amicably with Rua, but which has escalated over time. Cann denies the claims brought against it and will vigorously defend the action, including the subsequent filing of the Group's defence on 16 April 2024.

On 15 March 2024, Cann executed an extension of the Group's Working Capital Facility expiry date from 30 November 2024 to 31 March 2025. Since then, NAB have provided approval to extend this facility to 31 May 2025.

On 18 March 2024, the Group entered into a sale agreement for surplus equipment for proceeds of $1.7 million if payment is made entirely in cash, or $1.9 million if payment is made by way of a combination of equity and cash if both parties mutually agree. The Group has received the first deposit amount of $100k and expects to receive the remaining $1.6 million on or before 30 June 2024 in accordance with the terms of the sale agreement.

On 21 March 2024, Peter Koetsier, resigned from the position as Chief Executive Officer. Non-Executive Director, Ms Jenni Pilcher, assumed an Executive Director role on 1 April 2024 for a fixed period of four months.

On 22 March 2024, the Group received the final payment of $1.9 million from SatiVite Pty Ltd for the sale of business assets at is formerly owned Southern cultivation and manufacturing facility. The Group used a portion of these funds to extinguish the Group's NAB temporary excess facility of $1.9 million in full.

On 15 April 2024, Tony Di Pietro commenced as Chief Financial Officer. This role was previously vacated in December 2023.

On 6 May 2024, NAB provided a letter of waiver, waiving its right to any further action for both the historical breach (Gearing Ratio as at 31 Dec 2023) and the current breach (Gearing Ratio as at 31 Mar 2024).

On 6 May 2024, the Group entered into a debt facility agreement (Finance Agreement) whereby it will borrow $5 million (Principal) from a private Australian credit fund ("Fund"). The Principal loan amount will incur interest at a rate of 15% per annum, payable monthly in arrears. The debt facility is secured over the Mildura facility under a second mortgage and will expire on 7 May 2025.

As part of this financing, an Intercreditor Deed has been entered into between NAB (Secured Part A) and the Fund (Secured Party B) and Cann (Grantors/Borrower) (the Deed) which recognises that certain security granted by Cann to NAB under an existing finance agreement is common with security being granted to the Fund under the terms of a Loan by the Fund to Cann, and further provides that NAB securities have priority over the Fund securities for the payment of amounts secured at any time under the NAB Finance Agreement. Also as part of the financing, the Convertible Note Holder has granted a waiver to its right to call for an early redemption of the outstanding Convertible Securities, and in respect of their right to prepayment of the initial drawdown from funds raised under this financing or the Group's balance sheet as at the date of the financing.

Note 16. Earnings per share

	31 December 2023 $'000	31 December 2022 $'000
Loss after income tax	(14,338)	(18,844)
	Number	**Number**
Weighted average number of ordinary shares used in calculating basic earnings per share	421,144,668	352,735,883
Weighted average number of ordinary shares used in calculating diluted earnings per share	421,144,668	352,735,883
	Cents	**Cents**
Basic loss per share	3.40	5.34
Diluted loss per share	3.40	5.34

As at 31 December 2023, the Group has 5,940,000 unlisted options on issue (30 June 2023: 6,120,000) and 2,272,466 performance rights on issue (30 June 2023: 2,930,858). These instruments are considered to be non-dilutive whilst the Group is in a loss position.

9 DIRECTORS' DECLARATION

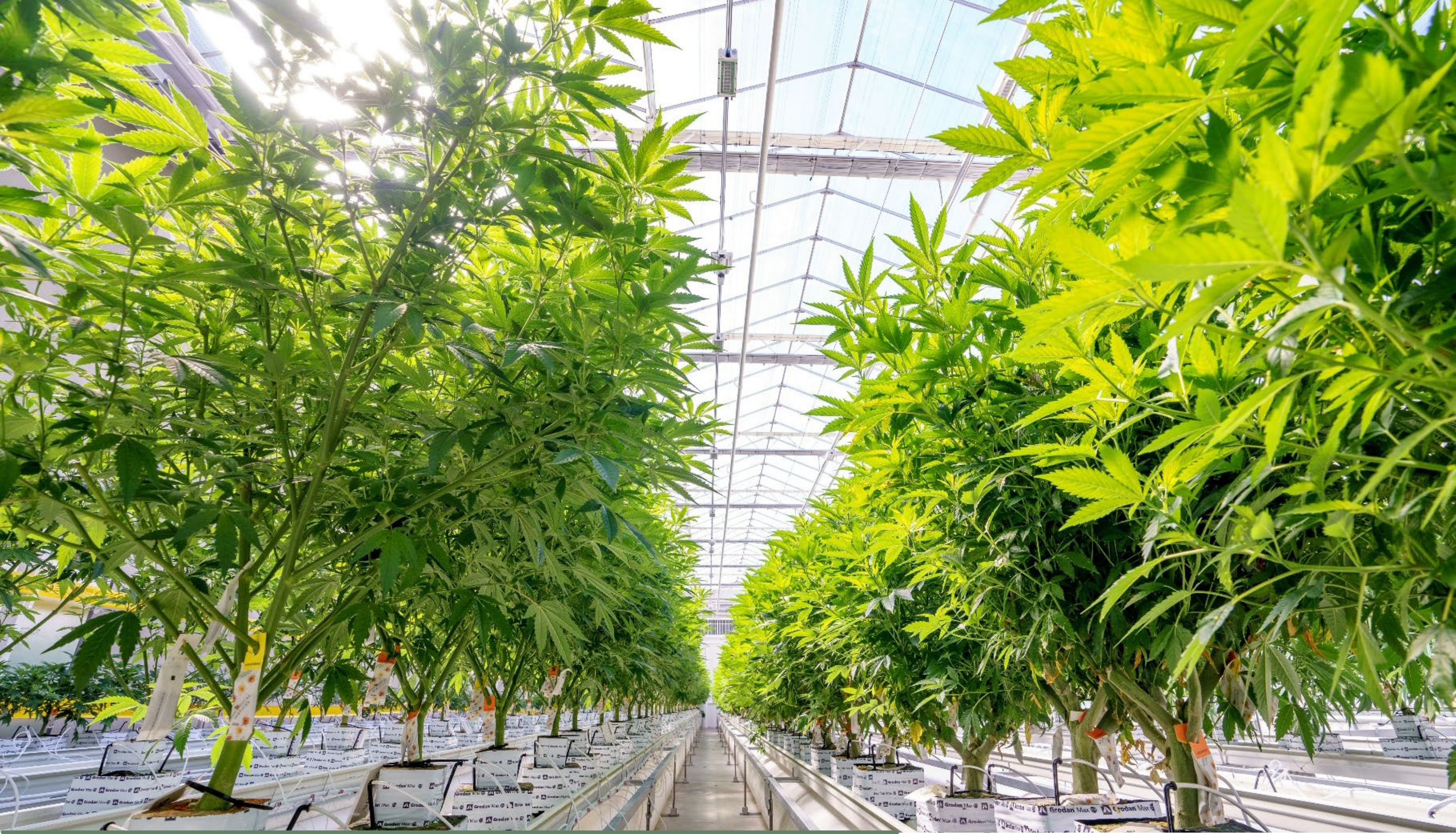
In the Directors' opinion:

- 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 2023 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

Dr Julian Chick
Non-executive Chairman
08 May 2024



31 DECEMBER 2023

10 INDEPENDENT AUDITOR'S REPORT

William Buck
ACCOUNTANTS & ADVISORS

Independent auditor's review report to the members of Cann Group Limited

Report on the half-year financial report

Our conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the accompanying half-year financial report of Cann Group Limited (the Company), and its subsidiaries (the Group) does not comply with the *Corporations Act 2001*, including:

— giving a true and fair view of the Group's financial position as at 31 December 2023 and of its financial performance for the half-year then ended; and

— complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001.*

What was reviewed?

We have reviewed the accompanying half-year financial report of the Group, which comprises:

— the consolidated statement of financial position as at 31 December 2023,

— the consolidated statement of profit or loss and other comprehensive income for the half-year then ended,

— the consolidated statement of changes in equity for the half-year then ended,

— the consolidated statement of cash flows for the half-year then ended,

— notes to the financial statements, including material accounting policy information, and

— the directors' declaration.

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 Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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William Buck
ACCOUNTANTS & ADVISORS

Material Uncertainty Related to Going Concern

We draw attention to Note 1 to the financial report, which indicates that the Group incurred a net loss of $14,347,000 for the period ended 31 December 2023, net cash outflows from operating activities of $6,073,000 for the period ended 31 December 2023 and net current liabilities of $54,163,000 as at 31 December 2023. 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 Group's ability to continue as a going concern. Our conclusion is not modified in respect of this matter.

Other matter

Without modifying the conclusion expressed above, attention is drawn to the following matter. Subsequent to the finalisation of the original half-year financial report and the issue of the original half-year disclaimer of conclusion on the half-year report dated 29 February 2024, the Group sourced $5.0 million (before costs) of cash on 6 May 2024 through the execution of an external debt facility. Further to this, the Group obtained an extension of maturity date for an existing external debt facility and the provision of a financial covenant waiver in addition to implementing a restructuring of its operating activities. These events have provided us with sufficient and appropriate evidence to issue an unmodified conclusion on the half-year financial report for the period ended 31 December 2023 as re-issued on 8 May 2024.

Responsibilities of the directors for the financial report

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

Auditor's responsibilities for the review of the 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 Group's financial position as at 31 December 2023 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

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

R. P. Burt
Director
Melbourne, 8 May 2024