

AusCann

ABN 72 008 095 207

Appendix 4E and Preliminary Unaudited Financial Report

30 June 2022

AUSCANN GROUP HOLDINGS LTD
ABN 72 008 095 207

AusCann Group Holdings Limited provides the following information under listing rule 4.3A:

Details of the reporting period and the previous corresponding period

- Reporting period – year ended 30 June 2022
- Previous corresponding period – year ended 30 June 2021

Results for announcement to the market

	%		\$
Revenues from ordinary activities	<i>Up</i>	10%	<i>to</i> 2,024,508
Loss from ordinary activities after tax attributable to members	<i>Up</i>	205%	<i>to</i> 26,357,782
Net loss from the period attributable to members	<i>Up</i>	205%	<i>to</i> 26,357,782
Final and interim dividends	-		
Record date for determining entitlements to dividends	N/A		

	Reporting period	Previous corresponding period
Net tangible asset backing per ordinary share	4.12 cents	10.09 cents

Commentary on results

The AusCann Group Holdings consolidated entity (AusCann) is pleased to report on its 2022 financial year.

Neuvis Process Improvement Plan

During the year, AusCann commenced a process improvement plan to improve its self-emulsifying drug delivery ('SEDDS') manufacturing technology.

AusCann launched its own Neuvis® hard-shell capsules in February 2020 using its SEDDS process under the Special Access Pathway (SAS-B) and was extremely pleased with the initial endorsement of the product by healthcare practitioners and patients.

However, the Company made the decision to temporarily pause the production of its 1:1 Oral capsules to focus on process development and improvement activities to reduce manufacturing costs, while improving consistency of supply and enabling a better variety of product formats for local and export markets.

Post the end of the financial year, the Company was pleased to have successfully manufactured its first engineering batch, following the install of processing equipment and receipt of the Company's NSW Ministry of Health permit to hold controlled substances for the purposes of research and development at a new manufacturing location in NSW, Australia.

Product characteristics for the produced powder were excellent, giving the Company confidence to proceed with a validation program to allow the production of commercially available material.

Strategic Agreement with EuroCann

During the year the Company was pleased to announce that it had entered into a binding term sheet with European Cannabis Corporation Ltd ('Eurocann') to explore mutual opportunities in the European and Australian cannabis markets.

Eurocann is an Australian, unlisted public company which owns (through its wholly owned subsidiary HAPA Pharm B.V.) 100% of HAPA Pharm GmbH in Germany. It has been an early mover in the European cannabis market with EU-GMP certification for the cultivation, extraction, and manufacture of medicinal cannabis products.

Under the term sheet, the parties agreed to focus on AusCann's self-emulsifying drug delivery technology for the development of standardised dosage form cannabis products for commercialisation in Germany as well as exploring other strategic opportunities that are beneficial to AusCann and Eurocann, including the import of EU-GMP cannabis products into Australia.

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In addition to the strategic collaboration, AusCann was also pleased to announce that it had entered into a secured commercial loan facility with Eurocann to advance up to \$5 million to supply capital expenditure to Eurocann for the construction of additional greenhouses, expansion of manufacturing capabilities, and exclusivity for the commercialisation of medicinal cannabis products for the Australian and New Zealand markets ('Approved Purpose').

This will expand the Company's EU-GMP medicinal cannabis cultivation and manufacturing capabilities to support the strategic collaboration.

Advanced Animal Health Programs

During the year, the Company was pleased to advance the research and development of its animal health programs.

The Company announced that it had completed the submission of its dossier to the Australian Pesticides and Veterinary Medicines Authority ('APVMA') for the registration of DermaCann®, a cannabinoid-based medicine in development for anti-inflammatory and immune support in dogs with dermatological conditions. Additionally, the Company was also pleased to announce that it had held its Pre-Submission Conference meeting ('PSC') with the U.S Food and Drug Administration, Centre for Veterinary Medicine ('FDA-CVM') to discuss the development program and regulatory pathway for CPAT-01 in the United States.

The PSC meeting package was prepared with assistance from the Company's regulatory consultants and included an overview of the CPAT-01 program, with specific questions relating to the various technical sections required for a New Animal Drug Application ('NADA') to seek approval for CPAT-01.

The meeting was attended by representatives in various divisions from the FDA-CVM, including the Division of Companion Animal Drugs, Manufacturing Technologies, Toxicology, Environment, Clinical Pharmacology and Target Animal Safety. The agency provided advice for the Company's next phase of development for the program.

Review of Development Programs

While the Company has been progressing with its core research and development activities, the Global Cannabis Stock Index has continued to fall significantly in the previous 12 months and this, along with challenging market conditions, resulted in an internal review of the Company's strategic initiatives during the year.

The Company has also engaged JLL Australia to commence preparations for a marketing campaign to sell the Company's R&D facility in Wangara, Perth. The Company will be selling the facility through a public tender process, with the campaign commenced on 10 August 2022.

Dividends

The Board has not declared dividends or made dividend payments in the periods ended 30 June 2021 and 2022. The Company does not have any dividend or distribution reinvestment plans in operation.

Details of entities over which control has been gained or lost

There have been no changes in control over entities in the year ended 30 June 2022.

Details of associates and joint venture entities

The were no associates and joint venture entities in the year ended 30 June 2022.

Foreign entities

There are no foreign entities.

Audit status

The consolidated financial statements are in the process of being audited.

Financial report

The following financial report included in this Appendix 4E does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and operating, financing and investing activities of the consolidated entity as the full financial report. The financial report should be read in conjunction with any public announcements made by AusCann Group Holdings Limited in accordance with the continuous disclosure obligations of the ASX Listing Rules.

The accounting policies applied are the same as those noted in the most recent interim financial report and the previous annual report.

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CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2022

	Note	2022 \$	2021 \$
Sales		29,735	84,495
Less: Cost of goods sold		(43,303)	(69,929)
Net Sales (Loss) Income		(13,568)	14,566
Government grants	1	1,531,525	1,662,103
Gain on disposal of right-of-use asset and lease liability		-	8,804
Rental income		427,500	71,250
Interest revenue		30,021	76,930
Other income		49,030	-
Total Income		2,024,508	1,833,653
Employee benefits expense	1(i)	(1,715,956)	(2,645,529)
Consulting fees	1(ii)	(223,273)	(422,279)
Merger and acquisition fees		-	(1,172,798)
Research and development (direct costs)	1(iii)	(1,474,512)	(2,947,926)
Depreciation and amortisation	1(iv)	(1,838,120)	(685,794)
Corporate / Administration expenses		(830,677)	(1,448,050)
Impairment of inventories		(183,306)	(2,593,417)
Impairment of investment properties		(3,854,974)	-
Impairment of intangible assets	10	(15,458,575)	-
Impairment of fixed assets		(759,067)	-
Other expenses	1(v)	(628,401)	(493,505)
Total Expenses		(26,966,861)	(12,409,298)
Loss Before Tax from Continuing Operations		(24,942,353)	(10,575,645)
Income tax expense		-	-
Loss After Tax from Continuing Operations		(24,942,353)	(10,575,645)
Profit/(Loss) after income tax expense from discontinued operations	12(a)	(1,415,429)	1,934,254
Net Loss After Tax for the Year		(26,357,782)	(8,641,391)
Other comprehensive income, net of tax		-	-
Total Comprehensive Loss for the Year		(26,357,782)	(8,641,391)
Loss per Share from Continuing Operations			
Basic and diluted loss per share (cents)	2	(5.66)	(3.00)
Loss per share from Continuing and Discontinued Operations			
Basic and diluted loss per share (cents)	2	(5.98)	(2.45)

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 30 JUNE 2022

	Note	2022 \$	2021 \$
CURRENT ASSETS			
Cash and cash equivalents	3	5,716,641	13,679,923
Inventories	4	-	212,898
Other current assets	11	1,356,076	1,336,945
Total Current Assets		7,072,717	15,229,766
NON-CURRENT ASSETS			
Right-of-use asset	6	38,623	84,972
Investment property	7	7,200,000	11,111,439
Property, plant and equipment	8	23,728	854,061
Intangible assets	9	-	17,037,944
Other non-current assets	11	4,115,090	801,179
Total Non-Current Assets		11,377,441	29,889,595
Total Assets		18,450,158	45,119,361
CURRENT LIABILITIES			
Trade and other payables	12	132,086	467,095
Lease liabilities	6	39,873	45,433
Employee entitlements	13	123,743	139,266
Total Current Liabilities		295,702	651,794
NON-CURRENT LIABILITIES			
Lease liabilities	6	-	39,871
Total Non-Current Liabilities		-	39,871
Total Liabilities		295,702	691,665
NET ASSETS		18,154,456	44,427,696
EQUITY			
Issued capital	14	93,165,187	93,165,187
Reserves	15	127,989	786,388
Accumulated losses		(75,138,720)	(49,523,879)
TOTAL EQUITY		18,154,456	44,427,696

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 YEAR ENDED 30 JUNE 2022

	Issued Capital \$	Share-Based Payments Reserve \$	Accumulated Losses \$	Total \$
Balance at 1 July 2020	75,468,632	1,273,328	(42,105,988)	34,635,972
Loss after tax for the period	-	-	(8,641,391)	(8,641,391)
Other comprehensive income for the period, net of tax	-	-	-	-
	-	-	(8,641,391)	(8,641,391)
Transactions with owners in their capacity as owners				
Issue of shares and options for acquisition of CannPal (net of costs)	17,696,555	524,049	-	18,220,604
Share-based payments	-	212,511	-	212,511
Expired options	-	(1,223,500)	1,223,500	-
Balance at 30 June 2021	93,165,187	786,388	(49,523,879)	44,427,696
Balance at 1 July 2021	93,165,187	786,388	(49,523,879)	44,427,696
Loss after tax for the period	-	-	(26,357,782)	(26,357,782)
Other comprehensive income for the period, net of tax	-	-	-	-
	-	-	(26,357,782)	(26,357,782)
Transactions with owners in their capacity as owners				
Share-based payments	-	84,542	-	84,542
Expired options	-	(742,941)	742,941	-
Balance at 30 June 2022	93,165,187	127,989	(75,138,720)	18,154,456

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 YEAR ENDED 30 JUNE 2022

	Note	2022 \$	2021 \$
CASH FLOW FROM OPERATING ACTIVITIES			
Interest received		48,010	76,441
Government grants and incentives		1,531,525	1,712,103
Receipts from customers		361,599	47,164
Payments to suppliers and employees		(4,772,148)	(8,767,646)
Net cash used in operating activities		(2,831,014)	(6,931,938)
CASH FLOW FROM INVESTING ACTIVITIES			
Payments for loans to DayaCann		-	(45,518)
Payments for buildings and building improvements	8	(84,269)	(23,301)
Payments for plant and equipment	8	(402)	(9,016)
Payments for loan to European Cannabis Corporation	11	(5,000,000)	-
Net cash received on acquisition of CannPal		-	899,829
Proceeds from sale of DayaCann JV		-	527,763
Proceeds from transfer of DayaCann loan		-	125,991
Net cash (used in) / from investing activities		(5,084,671)	1,475,748
CASH FLOW FROM FINANCING ACTIVITIES			
Repayment of lease liabilities		(47,597)	(29,548)
Net cash used in financing activities		(47,597)	(29,548)
Net decrease in cash and cash equivalents		(7,963,282)	(5,485,738)
Cash and cash equivalents at the beginning of the financial year		13,679,923	19,165,661
Cash and cash equivalents at the end of the financial year	3	5,716,641	13,679,923

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

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**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2022**

	2022 \$	2021 \$
NOTE 1: OTHER INCOME AND EXPENSES		
Government Grants		
Research and development grant incentive	1,484,379	1,561,518
Export market development grant	47,146	83,085
WA payroll tax grant	-	17,500
	<u>1,531,525</u>	<u>1,662,103</u>
Expenses		
Total expenses include the following specific expenses:		
(i) Employee Benefits		
Employee benefits expense	1,631,414	2,433,018
Share-based payment expense – employees	84,542	212,511
	<u>1,715,956</u>	<u>2,645,529</u>
(ii) Consulting Fees		
Consulting fees	223,273	422,279
	<u>223,273</u>	<u>422,279</u>
(iii) Research and Development (Direct Costs)		
Raw materials	137,415	521,799
Contract manufacturing R&D	279,215	547,252
Consultants – R&D	430,583	483,878
Analytics	265,752	621,932
Site costs	38,266	103,380
Pharmaceutical development	270,654	613,716
Other	52,627	55,969
	<u>1,474,512</u>	<u>2,947,926</u>
(iv) Depreciation and Amortisation		
Right-of-use asset	46,348	26,574
Property, plant and equipment	212,403	204,881
Intangible assets	1,579,369	454,339
	<u>1,838,120</u>	<u>685,794</u>
(v) Other Expenses		
Occupancy expenses	2,514	29,478
Legal expenses	73,785	72,246
Travel and accommodation	64,495	31,075
Licenses and permits	40,231	98,964
Marketing	72,885	34,504
Other	374,491	227,238
	<u>628,401</u>	<u>493,505</u>

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NOTE 2: EARNINGS PER SHARE

	2022 cents	2021 cents
Basic and Diluted Loss per Share (in Cents)		
From continuing operations	(5.66)	(3.00)
From discontinued operations	(0.32)	0.55
Total basic and diluted loss per share	<u>(5.98)</u>	<u>(2.45)</u>

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

	2022 \$	2021 \$
Reconciliation of Loss Used in Calculating Loss per Share		
<i>Loss attributable to ordinary equity holders of the parent</i>		
From continuing operations	(24,942,353)	(10,575,645)
From discontinued operations	(1,415,429)	1,934,254
Net loss for the year	<u>(26,357,782)</u>	<u>(8,641,391)</u>

	2022 Number	2021 Number
Weighted average number of ordinary shares used in the calculation of basic and diluted earnings per share	440,547,110	352,236,328

No securities are currently classified as dilutive potential ordinary shares. All options and performance rights on issue are anti-dilutive since their inclusion would reduce the loss per share.

NOTE 3: SEGMENT DISCLOSURES

During the year, the consolidated entity operated in one business segment, being the research and development of medicinal cannabis. This activity was established in both Australia and in Chile (via the consolidated entity's joint venture with DayaCann) until the divestment of the consolidated entity's interest in the joint venture on 22 March 2021.

Based on the above the Board of Directors of AusCann Group Holdings Ltd (chief operating decision makers) have identified two main reportable segments of the consolidated entity's business:

- research and development of medicinal cannabis (based in Australia); and
- research and development of medicinal cannabis in Chile, which has been disclosed as part of discontinued operations.

This focus is consistent with the internal reports that are reviewed and used by the Board of Directors of AusCann Group Holdings Ltd (chief operating decision makers) in assessing performance and determining the allocation of resources.

2022

Consolidated	Corporate	Medicinal Cannabis Research and Development	Discontinued Operations	Total
	\$	\$	\$	\$
Total Revenue	30,021	1,994,487	-	2,024,508
Total Expenses	(101,612)	(26,865,249)	(1,415,429)	(28,382,290)
Loss Before Income Tax	(71,591)	(24,870,762)	(1,415,429)	(26,357,782)
Income tax (expense)	-	-	-	-
Loss After Income Tax	<u>(71,591)</u>	<u>(24,870,762)</u>	<u>(1,415,429)</u>	<u>(26,357,782)</u>

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NOTE 3: SEGMENT DISCLOSURES (CONTINUED)

2022 (continued)

Consolidated	Corporate \$	Medicinal Cannabis Research and Development \$	Discontinued Operations \$	Total \$
Assets				
Segment assets	10,129,739	8,320,419	-	18,450,158
Total Assets	10,129,739	8,320,419	-	18,450,158
Liabilities				
Segment liabilities	9,204	286,498	-	295,702
Total Liabilities	9,204	286,498	-	295,702

2021

	\$	\$	\$	\$
Total Revenue	76,394	1,757,259	1,979,772	3,813,425
Total Expenses	1,828,871	10,580,427	45,518	12,454,816
Loss Before Income Tax	(1,752,477)	(8,823,168)	1,934,254	(8,641,391)
Income tax (expense)	-	-	-	-
Loss After Income Tax	(1,752,477)	(8,823,168)	1,934,254	(8,641,391)
Assets				
Segment assets	12,303,563	31,489,780	1,326,018	45,119,361
Total Assets	12,303,563	31,489,780	1,326,018	45,119,361
Liabilities				
Segment liabilities	9,204	682,461	-	691,665
Total Liabilities	9,204	682,461	-	691,665

NOTE 4: CASH AND CASH EQUIVALENTS

	2022 \$	2021 \$
Cash at bank and in hand	5,716,641	13,679,923
	5,716,641	13,679,923

NOTE 5: INVENTORIES

Raw materials	2,774,058	2,774,058
Work in progress	-	2,665
Finished goods	4,000	29,592
Less: Provision for stock obsolescence	(2,778,058)	(2,593,417)
	-	212,898

Since the financial year ended 30 June 2021, there were minimal sales of the Group's finished goods and thus obsolescence has been fully provided for against the stock as at 30 June 2022.

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NOTE 6: RIGHT-OF-USE ASSET AND LEASE LIABILITIES

	2022 \$	2021 \$
Right-of-Use Asset		
Land and buildings – right-of-use	92,697	92,697
Less: Accumulated depreciation	(54,073)	(7,725)
	<u>38,624</u>	<u>84,972</u>
Changes to the Right-of-Use Asset Carrying Amount		
Carrying amount at beginning of the year	84,972	84,822
Depreciation of right-of-use asset	(46,348)	(26,574)
Disposal of right-of-use asset upon cessation of lease	-	(65,973)
Right-of-use asset recognised upon signing of new lease	-	92,697
Carrying amount at 30 June	<u>38,624</u>	<u>84,972</u>
Lease Liabilities		
Current lease liabilities	39,873	45,433
Non-current lease liabilities	-	39,871
	<u>39,873</u>	<u>85,304</u>
Changes to the Lease Liabilities Carrying Amount		
Carrying amount at beginning of the year	85,304	94,317
Interest on unwinding of lease liabilities	2,166	2,615
Repayment of lease liabilities	(47,597)	(29,548)
Disposal of lease liability	-	(74,778)
Lease liability recognised upon signing of new lease	-	92,698
Carrying amount at 30 June	<u>39,873</u>	<u>85,304</u>

On 22 April 2021, the Company's subsidiary, CannPal, entered into a lease for 2 years. The right-of-use asset and the lease liability relating to this lease has been recognised and reflected in the right-of-use asset and lease liability balances at 30 June 2022.

On renewal of the consolidated entity's leases, the terms of the leases are renegotiated. The consolidated entity also leases car parking spaces, but this lease is either short-term or low-value, so has been expensed as incurred and not capitalised as right-of-use assets.

NOTE 7: INVESTMENT PROPERTY

On 17 June 2021, the Company entered into an agreement to lease the Company's research and development facility in Wangara, Western Australia to Source Certain International ("SCI").

The key terms of the agreement between the Company and SCI are as follows:

- *Term of lease:* 5 years plus two extension options of 5 years and 5 years;
- *Permitted use:* Laboratory, chemistry, development, manufacture, supply and cultivation;
- *Rent:* \$475,000 p.a. ex GST (subject to CPI increases and rent reviews);
- *Incentive:* First 6 months' rent free;
- *Outgoings:* SCI responsible for operating expenses related to the facility;
- *Right of first refusal:* SCI has first right to purchase the facility if AusCann proposes to sell; and
- *Service agreement:* AusCann has the right to negotiate a service level agreement allowing for SCI to provide AusCann with research and analytical services in the research and development facility.

Rental income of \$427,500 is shown within revenue for the year ended 30 June 2022 (2021: \$71,250), with the amount representing straight-line amortisation of the rental income to be received by the Company over the next 5 years, taking the 6-month lease incentive into account.

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NOTE 7: INVESTMENT PROPERTY (CONTINUED)

The risks associated with rights the Company retains in underlying assets are not considered to be significant.

The investment property has been valued at cost, based on the amount which was previously classified as land and buildings which was part of the Company's property, plant and equipment.

In line with expected valuation cycles, the Company obtained a full valuation of the investment property prior to 30 June 2022. The Company recognise an impairment loss of \$3,854,973 as a result of the decline in value of the property for the year ended 30 June 2022.

	2022 \$	2021 \$
Amounts Recorded at Cost		
Investment property	11,349,505	11,265,237
Less: Accumulated depreciation and impairment	(4,149,505)	(153,798)
	<u>7,200,000</u>	<u>11,111,439</u>
Changes to the Carrying Amounts		
Carrying amount at beginning of year	11,111,439	-
Additions to investment property	84,269	-
Depreciation charged during the year	(140,735)	-
Impairment in value	(3,854,973)	-
Reclassification from land, buildings and building improvements at cost	-	11,111,439
Carrying amount at 30 June	<u>7,200,000</u>	<u>11,111,439</u>

NOTE 8: PROPERTY, PLANT AND EQUIPMENT

Computer equipment at cost	40,730	40,328
Less: Accumulated depreciation	(37,315)	(31,709)
	<u>3,415</u>	<u>8,619</u>
Furniture and fittings at cost	90,087	90,087
Less: Accumulated depreciation	(73,934)	(67,221)
	<u>16,153</u>	<u>22,866</u>
Plant and equipment at cost	916,554	916,554
Less: Accumulated depreciation	(153,327)	(93,978)
Less: Impairment	(759,067)	-
	<u>4,160</u>	<u>822,576</u>
Total	<u>23,728</u>	<u>854,061</u>

During the year, the plant and equipment at the Group's investment property is no longer in use by the Group while the investment property has been leased out to a third party. As the Group do not have current plans to either store or sell this specialised plant and equipment with a net book value of \$759,067 at the balance sheet date, in the event of the investment property being sold in the near future, these are considered to have \$nil value for the Group and has hence been fully impaired.

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NOTE 8: PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Reconciliations

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

Consolidated	Land, Buildings and Building Improvements	Computer Equipment	Furniture and Fittings	Plant and Equipment	Total
Balance at 30 June 2020	11,241,936	12,901	30,208	453,019	11,738,064
Additions	23,301	1,861	2,727	4,428	32,317
Disposals	-	-	-	-	-
Depreciation expense	(153,798)	(6,143)	(10,069)	(34,871)	(204,881)
Reclassification as investment property	(11,111,439)	-	-	-	(11,111,439)
Balance at 30 June 2021	-	8,619	22,866	822,576	854,061
Additions	-	402	-	-	402
Disposals	-	-	-	-	-
Impairment				(759,067)	(759,067)
Depreciation expense	-	(5,606)	(6,713)	(59,349)	(71,668)
Balance at 30 June 2022	-	3,415	16,153	4,160	23,728

NOTE 9: INTANGIBLE ASSETS

	2022 \$	2021 \$
Acquired intellectual property	17,492,283	17,492,283
Less: Accumulated amortisation	(2,033,708)	(454,339)
Less: Impairment	(15,458,575)	-
	<u>-</u>	<u>17,037,944</u>

The fair value of the Group's acquired intellectual property, which was recognised as part of the business combination of CannPal Animal Therapeutics Pty Ltd ("CannPal") during the prior year, is in relation to the following CannPal products, identified within the acquisition by the Group:

- **CPAT-01:** CPAT-01 is a liquid, oral veterinary medicine containing standardized THC and CBD whole plant extracts in a proprietary ratio to target pain and inflammation in dogs. CPAT-01 is in Phase II, with CannPal having completed research in over 100 dogs, including a successful randomised, double-blind, placebo controlled clinical trial in 46 client owned dogs with osteoarthritis. This was complemented by the establishment of an Investigational New Animal Drug file (INAD) with the FDA-CVM for this key drug candidate;
- **DermaCann®:** is a CBD-derived nutraceutical in development for healthy skin and immune function in dogs with dermatological conditions. The product is a liquid oral oil formulation containing CBD in a patented combination with other bioactive lipids designed to target inflammation and immune modulation pathways. CannPal has completed a successful clinical study for DermaCann in a cohort of dogs with Atopic Dermatitis along with a significant number of in-vitro and in-vitro toxicological studies on the key active ingredient, cannabidiol. The results of this research, alongside other generated data, will be used to support the registration and commercialisation of DermaCann as a veterinary medicine in a number of key markets.
- **MicroMax®:** In June 2018, CannPal entered into an agreement with the Commonwealth Scientific and Industrial Research Organisation (CSIRO) under the CSIRO's Kick-Start initiative, to research the use of patented microencapsulation technologies for enhancing the delivery of cannabis-based animal health products. During the financial year ended 30 June 2020, CannPal was granted the global exclusive rights to commercialise patented MicroMAX® encapsulation technology by CSIRO for use in the field of Animal Therapeutics.

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NOTE 9: INTANGIBLE ASSETS (CONTINUED)

The Group's management believe that these provide future economic benefits to the consolidated group and meet the separate recognition criteria within AASB 138 Intangibles, when combined with potential synergies generated from the transaction.

The Group has previously amortised these intangibles using the straight-line method over 5 to 12 years. This is based on management's assessment of other similar products within the industry and takes into consideration the existing patents with expiry dates between 2039 and 2040, and trademarks with renewal dates between 2029 and 2030.

At 30 June 2022, the Group reassessed the future economic benefits of these intangible assets to the consolidated group and noted no further benefit is expected from these intangible assets. Accordingly, an impairment loss of \$15,458,575 was recognised for the year ended 30 June 2022 (2021: Nil).

NOTE 10: INTEREST IN JOINT VENTURE AND DISCONTINUED OPERATIONS

The consolidated entity had a 50% interest in DayaCann which was a for-profit joint venture established to grow medicinal cannabis in Chile. As the entity was a jointly controlled entity it was treated as a joint venture under AASB 11 *Joint Arrangements*, with the consolidated entity's investment in DayaCann accounted for using the equity method in the consolidated financial statements.

On 10 November 2020, AusCann announced an agreement with GrowForChile SpA ("GFC") and Telor International Limited ("Telor") in respect to the sale of the consolidated entity's 50% owned Chilean joint venture, DayaCann SpA ("DayaCann"). On 22 March 2021, AusCann announced it had finalised the sale of the Company's right, title and interest in DayaCann, and the transfer of the Company's loan.

An amount of USD \$200,000 was received on signing in December 2020. A further payment of USD \$200,000 was received in March 2021. These were in consideration for AusCann's 50% interest in DayaCann shares. An amount of USD \$100,000 was received in February 2021 towards the transfer of the loan. AusCann was expecting to receive further receipts totalling USD \$1,000,000 towards the transfer of the loan over the next two years (USD \$500,000 by 28 February 2022 and USD \$500,000 by 28 February 2023). These receivable amounts have been disclosed as deferred considerations.

The USD \$1,000,000 is currently in dispute and has been fully provided for with an impairment charge of \$1,415,429. Refer to Note 11 for further details.

NOTE 11: OTHER ASSETS

	2022 \$	2021 \$
Current		
Accounts receivable	26,623	41,821
Accrued income	182,084	71,251
GST receivable	(3,456)	163,663
Accrued interest	-	17,989
Prepayments	108,825	215,841
Loan to European Cannabis Corporation (ii)	1,000,000	-
Deferred consideration receivable within 1 year (i)	1,415,429	664,202
Provision for impairment on deferred consideration for sale of DayaCann (i)	(1,415,429)	-
Short term deposits	42,000	162,178
	<u>1,356,076</u>	<u>1,336,945</u>
Non-Current		
Prepayments	115,090	139,363
Loan to European Cannabis Corporation (ii)	4,000,000	-
Deferred consideration receivable within 2 years (i)	-	661,816
	<u>4,115,090</u>	<u>801,179</u>
	<u>5,471,166</u>	<u>2,138,124</u>

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NOTE 11: OTHER ASSETS (CONTINUED)

	2022 \$	2021 \$
(i) Movement in provision for expected credit losses		
Balance at 1 July	-	-
Provision for expected credit losses during the period	1,415,429	-
	<u>1,415,429</u>	<u>-</u>

The Group considers that there is evidence of impairment if any of the following indicators are present: financial difficulties of the debtor, probability that the debtor will dispute amounts owing and default or delinquency in payment (more than one year old).

During the year, an assessment was made of the recoverable balances as at 30 June 2022. Each receivable has been assessed individually for recovery, and those deemed to have a low chance of recovery have been fully provided for in the current period.

During the year, there was a dispute with GrowForChile SpA ("GFC") and Telor International Limited who claimed a breach of warranty under the share sale agreement. The Group believes that it will succeed in the dispute, however due to the SPA being governed by Chilean law and is subject to arbitration in Chile the Group identified this as an impairment indicator for the current deferred consideration receivables for the sale of DayaCann. In line with this indication of impairment, the current deferred consideration receivables for the sale of DayaCann have been fully provided for.

(ii) Loan to European Cannabis Corporation

On 29 April 2022, the Group granted a loan to European Cannabis Corporation (ECC) for a total amount of \$5,000,000 for the purpose of capital expenditure for the construction of additional greenhouses, expansion of manufacturing capabilities, and exclusivity for the commercialisation of medicinal cannabis products for the Australian and New Zealand markets. The loan is subject to interest of 7.5% per year.

The loan is to be repaid at \$1,000,000 on each of the first anniversary and the second anniversary of the date of the loan and the balance owing to be paid on the third anniversary of the date of the loan.

The loan is secured by a general security deed by which ECC grants security interest over all its assets and all the shares it holds in HAPA Pharm B.V. and a share pledge agreement wherein HAPA Pharm B.V. grants a security interest over all the shares it holds in HAPA Pharm GmbH, from time to time, together with a guarantee and indemnity in favour of the Group in respect of the amount owing by the ECC.

NOTE 12: TRADE AND OTHER PAYABLES

Trade payables and accrued expenses	113,151	366,391
PAYG and superannuation payable	18,935	100,704
	<u>132,086</u>	<u>467,095</u>

Due to the short-term nature of these payables, their carrying value is assumed to approximate their fair value.

NOTE 13: EMPLOYEE ENTITLEMENTS

Current

Provision for annual leave	<u>123,743</u>	<u>139,266</u>
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NOTE 14: ISSUED CAPITAL

	2022	2021	2022	2021
	\$	\$	Number of Shares	Number of Shares
Ordinary shares – fully paid, net of costs	93,165,187	93,165,187	440,547,110	440,547,110
	93,165,187	93,165,187		

Movements in Ordinary Share Capital

	Date	Number	\$
Opening balance	30 June 2020	317,047,357	75,468,632
Issue of 123,499,753 shares to acquire CannPal under Scheme	18 March 2021	123,499,753	17,907,464
Closing balance	30 June 2021	440,547,110	93,165,187
Closing balance	30 June 2022	440,547,110	93,165,187

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.

NOTE 15: RESERVES**Share-Based Payments Reserve**

The share-based payments reserve is used to recognise the value of share-based payments provided to directors and employees or suppliers for services provided.

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NOTE 16: SHARE-BASED PAYMENTS

On 1 July 2021, the Company granted 500,000 performance rights to Dr Margaret Curtis pursuant to the Company's Employee Securities Incentive Plan approved by Shareholders on 27 November 2018 and in accordance with her employment contract. Dr Curtis' Performance Rights will consist of four (4) equal tranches of 125,000 Performance Rights with market-based achievement goals over a five-year term commencing 1 July 2021 as follows:

- Tranche 1: the share price achieving a minimum of \$0.30 for 30 consecutive days;
- Tranche 2: the share price achieving a minimum of \$0.50 for 30 consecutive days;
- Tranche 3; the share price achieving a minimum of \$0.75 for 30 consecutive days; and
- Tranche 4: the share price achieving a minimum of \$1.00 for 30 consecutive days.

The total fair value of the Dr Curtis' Performance Rights has been calculated at \$47,051. The fair value was calculated using a Parisian Barrier valuation model and the following assumptions were used in the estimation:

	<i>Tranche 1</i>	<i>Tranche 2</i>	<i>Tranche 3</i>	<i>Tranche 4</i>
Fair value per right	\$0.1196	\$0.1004	\$0.0841	\$0.0723
Number of rights	125,000	125,000	125,000	125,000
Total fair value of tranche	\$14,950	\$12,550	\$10,513	\$9,038
<u><i>Assumptions</i></u>				
Spot price	\$0.15	\$0.15	\$0.15	\$0.15
Exercise price	Nil	Nil	Nil	Nil
Barrier price	\$0.30	\$0.50	\$0.75	\$1.00
Vesting date	N/A	N/A	N/A	N/A
Expiry date	18 March 2026	18 March 2026	18 March 2026	18 March 2026
Vesting schedule	30 consecutive days above exercise price	30 consecutive days above exercise price	30 consecutive days above exercise price	30 consecutive days above exercise price
Expected future volatility	80%	80%	80%	80%
Risk-free rate	0.73%	0.73%	0.73%	0.73%
Dividend yield	Nil	Nil	Nil	Nil

The performance rights were issued on 16 February 2022.

In addition to these, the following performance rights previously granted during the year ended 30 June 2021, were also issued to the following key management personnel:

- 2,000,000 CEO Performance Rights to Mr Layton Mills. Details of his performance rights including vesting conditions and fair value valuation are included in Note 20(b) of the annual financial report for the year ended 30 June 2021; and
- 1,000,000 CFO Performance Rights to Mr Charles Altshuler. Details of his performance rights including vesting conditions and fair value valuation are included in Note 20(c) of the annual financial report for the year ended 30 June 2021.

The share-based payment expense arising from the amortisation of the fair value of the above Performance Rights, and for options and performance rights vesting from prior periods, was \$84,542 (2021: \$212,511) during the year ended 30 June 2022.

No signing bonuses were paid during the current or previous financial years.

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NOTE 17: CONTINGENT LIABILITIES

The Group are currently in dispute with GrowForChile SpA ("GFC") and Telor International Limited ("Telor"), who bought 50% of DayaCann from the Group during the prior year. The disputed amounts are in relation to the USD 1,000,000 to be transferred to the Group, of which USD 500,000 was due on 28 February 2022 and the other USD 500,000 is due by 28 February 2023. Based on the sale and purchase agreement, the Group does not have any outstanding obligations and consider GFC and Telor's claims to be unjustified. However, due to the matter being in dispute, there may be legal fees incurred. The magnitude of these legal fees cannot be determined at the date of this report.

In addition, the Group has recognised a provision for expected credit losses on the full amount which was due (refer to note 11).

Other than the above, the Group is not aware of any other contingent liabilities.

NOTE 18: EVENTS SUBSEQUENT TO REPORTING DATE

On 12 August 2022, Chris Mews was appointed as Chief Financial Officer of the Group and is a current director of the Group.

There were no other events occurring subsequent to the end of the financial year that have significant affected , or may significantly affect, the operations of the consolidated entity in subsequent financial years.