AusCann Group Holdings Ltd
ABN 72 008 095 207

Annual Financial Statements

30 June 2022

TABLE OF CONTENTS

COMPANY INFORMATION

DIRECTORS
Mr Tod McGrouther (appointed 14 December 2021)
Ms Krista Bates
Mr Robert Clifford
Mr Chris Mews
Mr Max Johnston (resigned 15 November 2021)
Mr Bruce McHarrie (resigned 15 November 2021)
Dr Kathryn Adams (resigned 14 December 2021)
Mr Geoff Starr (resigned 14 December 2021)

COMPANY SECRETARIES
Ms Susan Park

REGISTERED OFFICE
Level 5
35 Havelock Street
West Perth WA 6005

WEBSITE
https://auscann.com.au/

AUDITORS
PKF Perth
Level 4
35 Havelock Street
West Perth WA 6005

SHARE REGISTRY
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Level 11
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Perth WA 6000

SECURITIES EXCHANGE
Australian Securities Exchange Ltd

ASX CODE
AC8

DIRECTORS' REPORT
FOR THE YEAR ENDED 30 JUNE 2022

The Directors present their report together with the financial statements of AusCann Group Holdings Ltd ("the Company" or "AusCann") and its controlled entities (collectively "the consolidated entity") for the year ended 30 June 2022.

Directors

The following persons were directors of the Company during the financial year and up to the date of this report, unless otherwise stated:

Mr Tod McGrouther	Appointed 14 December 2021
Ms Krista Bates	
Mr Robert Clifford	
Mr Chris Mews	
Mr Max Johnston	Resigned 15 November 2021
Mr Bruce McHarrie	Resigned 15 November 2021
Dr Kathryn Adams	Resigned 14 December 2021
Mr Geoffrey Starr	Resigned 14 December 2021

Information on Directors

Name:	**Tod Mc Grouther**
Title:	Independent Non-Executive Chairman (appointed 14 December 2021)
Qualifications:	
Experience and expertise:	Mr Tod McGrouther has over 35 years' experience in the Australian capital markets primarily in the areas of equity capital markets and corporate advisory. Mr McGrouther Holds a Bachelor of Laws (First Class Honours and University Medal) from the University of Sydney and a Bachelor of Finance (First Class Honours and University Medal) from the University of New South Wales. He also holds a Diploma in Finance from the Securities Institute of Australia. Between 1986 and 1994 Mr McGrouther was an Associate Director of Bankers Trust Australia Limited where he was involved in a number merger and acquisition advisory and float advisory assignments including the float of the Commonwealth Bank and the float of Woolworths. Between 1994 and 1998 he was a Director of Prudential Bache Securities Australia Limited where he was involved in a number of initial public offerings. From 1998 until the present Mr McGrouther is a principal of equity capital markets firm KTM Capital. Over this period KTM has raised over $500 million in equity and completed over 150 equity capital assignments for a range of Australian technology and resource companies. Since 2018 Mr McGrouther has been a Director of European Cannabis Corporation Limited ("ECC"), an Australian company which has built and operates a German EU GMP certified medicinal cannabis growth facility located in Spanchevo, Macedonia. ECC has also built and operates a German EU GMP certified medicinal cannabis extraction facility located in Skope, Macedonia. ECC also holds all relevant licenses and approvals to operate a pharmaceutical distribution business in Dortmund, Germany.
Directorships held in other listed entities:	Mr McGrouther is currently a Non-Executive Director of three ASX listed companies - NSX Limited, Urbanise Limited and Love Group Limited. Mr McGrouther is also Chairman of The National Stock Exchange of Australia Limited a subsidiary of NSX Limited.
Interests in shares and other equity:	Nil

Information on Directors (Continued)

Name:	**Krista Bates**
Title:	Independent Non-Executive
Qualifications:	BA(Hons), Grad Dip (Law), PostGrad Dip (Law), GAIDC
Experience and expertise:	Krista brings over 21 years of expertise in the legal market. She was a Partner at leading Western Australian law firm Lavan specialising in Corporate law and was Head of Mining & Resources and the Medical Cannabis Group. Krista has led transactions with deal values ranging from $20,000 to $5.5 billion across multiple sectors advising a diverse base of private and listed companies, private equity funds, governments and individuals, nationally and internationally. Recently Krista founded KB Corporate Advisors.
Directorships held in other listed entities:	Neurotech International Limited (ASX:NTI)
Interests in shares and other equity:	427,500 fully paid ordinary shares
Name:	**Robert Clifford**
Title:	Independent Non-Executive
Experience and expertise:	For over 25 years, Mr Clifford has been at the forefront of Australia and New Zealand's food and beverage industry. An industry professional and expert in food and destination development. Mr Clifford has extensive experience in developing new concepts for a wide range of markets. Beginning his career in hospitality with the Hyatt International Hotels and Resorts, Mr Clifford has held various executive management positions in Perth, Canberra and Macau. Mr Clifford was the Perth Convention Exhibition Centre's Chief Executive Officer before moving to Melbourne, where he led Australia's largest catering brand, EPICURE. Mr Clifford established Alto Cibum Consulting in 2015, providing business strategy to a range of private sector businesses and government bodies. Mr Clifford holds several board positions in listed companies, not for profit and start-up companies. Mr Clifford was privileged to open the Dublin office for the Irish Australian Chamber of Commerce during his tenure as president. He is an active member of the Irish Australian community with involvement in trade negotiations.
Directorships held in other listed entities	Mr Clifford is a director of CannPal Animal Therapeutics Limited (ASX:CP1), which was acquired by the Company on 18 March 2021 and subsequently delisted from the ASX.
Interests in shares and other equity:	624,380 fully paid ordinary shares

Information on Directors (Continued)

Name:	**Chris Mews**
Title:	Non-Executive
Qualifications:	BBus (Acc), CPA
Experience and expertise:	Chris is an experienced non-executive director with over 20 years in the financial services sector, having held senior positions in finance, corporate secretarial and compliance in listed and unlisted companies. Chris is currently the Chief Financial Officer and Company Secretary of Merchant Group Pty Ltd, a Perth based financial services firm that provides funds management and corporate finance services, with investment experience both in Australia and internationally in the medical cannabis sector. Prior to Merchant Group, he was the Chief Financial Officer and Company Secretary of listed biotech Company Polynovo Limited (ASX:PNV) and is currently Non-Executive Director of Health House International Limited (ASX:HHI) and Cycliq Group Limited (ASX:CYQ).
Directorships held in other listed entities	Health House International Limited (ASX:HHI) Cycliq Group Limited (ASX:CYQ)
Interests in shares and other equity:	279,689 fully paid ordinary shares
Name:	**Max Johnston**
Title:	Independent Non-Executive Chairman (resigned 15 November 2021)
Qualifications:	FICD, MAICD
Experience and expertise:	Max is a highly regarded health care industry director with a broad range of executive and pharmaceutical experience. He is currently a Non-Executive Director on the Boards of ASX-listed companies BARD1 Life Sciences, and Medical Developments International, and was previously a Non-Executive Director on the Board of PolyNovo. Max previously held the position of President and Chief Executive Officer of Johnson & Johnson Pacific, a division of the world's largest medical, pharmaceutical and consumer healthcare company for 11 years.
Directorships held in other listed entities:	BARD1 Life Sciences Limited (ASX:BD1) Medical Developments International Limited (ASX:MVP) PolyNovo Limited (ASX:PNV) – resigned 13 November 2020
Interests in shares and other equity:	1,000,000 fully paid ordinary shares

Information on Directors (Continued)

Name:	**Bruce McHarrie**
Title:	Independent Non-Executive (resigned 15 November 2021)
Qualifications:	BCom, FCA, GAICD
Experience and expertise:	Mr McHarrie is a company director and adviser in the health and life sciences sector with over 25 years' experience. He was formerly with the Telethon Kids Institute in Perth for 15 years, where his roles included Chief Financial Officer, Director of Operations and Director of Strategic Projects. Prior to joining Telethon Kids, Mr McHarrie was based in London as a Senior Manager at Deloitte before moving to Rothschild Asset Management as Assistant Director of the BioScience Unit, a life sciences private equity group investing in early-stage biotechnology, healthcare and agribusiness companies. Outside his role at Auscann, he is currently an advisor to BioScience Managers Pty Ltd, an international healthcare investment firm that finances and enables innovative science and technology in the life science sector, a director at Adherium Ltd (digital health) and Pharmamark Nutrition Pty Ltd (nutritional foods). He is a Fellow of the Institute of Chartered Accountants Australia and New Zealand, holds a Bachelor of Commerce degree from the University of Western Australia, and is a graduate member of the Australian Institute of Company Directors.
Directorships held in other listed entities	Adherium Limited (ASX:ADR)
Interests in shares and other equity:	114,286 fully paid ordinary shares
Name:	**Dr Kathryn Adams**
Title:	Independent Non-Executive (resigned 14 December 2021)
Qualifications:	BSc, BVMS, BComm
Experience and expertise:	Dr Adams is an entrepreneur and Veterinarian with an interest in innovation, science and fast growing emerging biotechnology companies. Dr Adams is the owner of Bondi Veterinary Hospital and is a TV host for Channel 9's Bondi Vet. Dr Adams has held senior leadership roles for the Federal Attorney-General's Portfolio including as an Analyst, Principal Adviser and Chief of Staff for a number of Royal Commissions and holds a Bachelor of Science, Bachelor of Veterinary Medicine and Surgery and a Bachelor of Communications.
Directorships held in other listed entities:	Dr Adams is a director of CannPal Animal Therapeutics Limited (ASX:CP1), which was acquired by the Company on 18 March 2021 and subsequently delisted from the ASX.
Interests in shares and other equity:	Nil

Information on Directors (Continued)

Name:	**Geoff Starr**
Title:	Independent Non-Executive (resigned 14 December 2021)
Qualifications:	BA(HONS), GAICD
Experience and expertise:	Mr Starr has over 35 years of executive experience to the company, 15 years of which was at Managing Director or CEO level, gained all around the world, but especially in Asia, Europe and Australia/New Zealand. These positions included high level corporate companies such as Unilever and Mars Group, where Geoff had a very distinguished career running their pet food business in both Asia and Europe with over 20 brands in their portfolio, including Royal Canin, Whiskas, Advance and Pedigree.
Directorships held in other listed entities	Mr Starr is a director of CannPal Animal Therapeutics Limited (ASX:CP1), which was acquired by the Company on 18 March 2021 and subsequently delisted from the ASX.
Interests in shares and other equity:	360,000 fully paid ordinary shares

Company Secretary

Susan Park (BCom, ACA, F Fin, FGIA, FCG, GAICD)

Ms Park has 25 years' experience in the corporate finance industry. She is founder and managing director of consulting firm Park Advisory Pty Ltd (formerly Hunter Corporate Pty Ltd), which specialises in the provision of corporate governance and company secretarial advice to ASX listed companies, and has previously held senior management roles at Ernst & Young, PricewaterhouseCoopers and Bankwest, both in Perth and Sydney.

Board and Committee Meetings

	Directors' Meetings		Audit and Risk Committee Meetings [3]		Remuneration and Nomination Committee Meetings [4]	
Director	**Meetings held whilst in office**	**Attended**	**Meetings held whilst in office**	**Attended**	**Meetings held whilst in office**	**Attended**
Tod McGrouther[1]	6	6	-	-	-	-
Krista Bates	16	15	3	3	-	-
Robert Clifford [1]	16	15	3	3	-	-
Chris Mews	16	14	3	3	-	-
Robert Maxwell (Max) Johnston [2]	7	7	-	-	1	1
Bruce McHarrie [2]	7	7	2	2	-	-
Dr Kathryn Adams [3]	10	6	-	-	1	1
Geoff Starr [3]	10	9	-	-	1	1

1 Mr Tod McGrouther was appointed as Chairman on 14 December 2021.
2 Mr Max Johnston and Mr Bruce McHarrie resigned on 15 November 2021.
3 Dr Kathryn Adams and Mr Geoff Starr resigned on 14 December 2021.
4 The members of the Audit and Risk Committee were Mr B. McHarrie (Chair), Ms K. Bates (member), Mr C. Mews (member) and Mr R. Clifford (member) until 15 November 2021. Following 15 November 2021, the members were Mr R. Clifford (Chair), Ms K. Bates (member) and Mr C. Mews (member)..
5 The members of the Remuneration and Nomination Committee until 15 November 2021 were Mr G. Starr (Chair), Mr R. M. Johnston (member) and Dr K. Adams (member). The full Board acted in the capacity and under the adopted Charter of the Remuneration and Nomination Committee following 15 November 2021.

State of Affairs

There were no other significant changes in the state of affairs of the consolidated entity during the financial year, other than those discussed already in the financial report and elsewhere in this Directors' Report.

Principal Activities

AusCann's principal activity during the financial year was to develop a differentiated portfolio of innovative and standardised cannabinoid-based medicines that expands the therapeutic applications of cannabis, offering both people and pets greater benefit for the treatment of inadequately met medical needs.

AusCann does this by providing healthcare professionals and veterinarians with reliable pharmaceutical and nutraceutical products, with robust safety, quality assurance and efficacy data to support the treatment of their patients in global jurisdictions with relevant legislation that offer a compelling return on investment.

Operating Results and Financial Position

The loss of the consolidated entity for the financial year was $26,357,782 (2021: $8,641,391), which included $84,542 (2021: $212,511) of non-cash share-based payments; impairment of intangible assets of $15,458,575, impairment of fixed assets of $759,067; $183,306 (2021: $2,593,417) non-cash impairment of inventories; and impairment of investment properties amounting to $3,854,973).

Excluding one-off costs, the net cash used in operating activities during the year reduced by 59% to $2,831,014 (2021: $6,931,938) due to reductions in statutory expenses, shared resources, operational efficiencies, and a streamlined organisational structure as a result of the acquisition of CannPal.

Direct research and development expenses of $1,474,512 (2021: $2,947,926) accounted for 52% of the Company's net cash operating outflows for the financial year and relates to core revenue generating activities for the Company's lead medicinal cannabis programs.

Total income for the Company is up 8.6% predominately due to the refund from the Australian Taxation Office of $1,484,379 (2021: $1,561,518) in accordance with the Australian Government's Research and Development Tax Incentive Program.

The acquisition of CannPal which contributed $17,037,944 in intangible assets, partially netted off with continued operational expenditure in the previous year was fully impaired during the current year for $15,458,575.

A non-cash impairment of inventories during the year of $183,306 (2021: $2,593,417) relates to a write down in the value of raw materials due to changes in the wholesale cost of cannabinoid resins resulting from downward pressure on API prices with increased competition in global markets. This has reduced the retail floor price of medical cannabis products reducing the net realisable value of the resins. There were also minimal sales of the Group's finished goods since the previous year and thus obsolescence has been provided for against the stock as at 30 June 2022. This provision will be reassessed as the group progresses its research, development and commercialisation programs.

Additional non-cash expenditure relating to impairment of $3,854,973 (2021: Nil) and depreciation and amortisation amounting to $140,735 for the year (2021: $685,794) relates to the use of the consolidated entity's facility in Wangara, Western Australia. On 17 June 2021 the Company entered into an agreement to lease this facility, contributing $427,500 (excluding GST) per year going forward in rental income with the tenant also assuming the cost of the outgoings.

Loss from discontinued operations of $1,415,429 for the year ended 30 June 2022 relates to the provision for credit losses on the deferred consideration receivable from Telor International Limited which is under dispute. (2021: Profit of $1,934,254 are in respect to the sale of the Company's right, title and interest in its 50% owned Chilean joint venture, DayaCann SpA (DayaCann). The agreement included the transfer of the Company's loan with DayaCann to GFC).

AusCann received an upfront payment of USD $200,000 in December 2020 and USD $200,000 in March 2021 in consideration for AusCann's 50% interest in DayaCann shares. AusCann also received an upfront payment of $USD 100,000 in February 2021 and expects to receive further receipts totalling USD $1 million towards the transfer of the loan. These amount to a total consideration of USD $1.5 million for the sale of the joint venture and the transfer of the loan.

AusCann remains well funded with net cash of $5,716,641 (2021: $13,679,923)

REVIEW OF OPERATIONS

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.

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.

REVIEW OF OPERATIONS (CONTINUED)

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.

Material Uncertainty Related to Going Concern

The auditor's report contains a statement of material uncertainty regarding the consolidated entity's ability to continue as a going concern. The consolidated financial statements have been prepared on a going concern basis, which contemplates the realisation of assets and settlement of liabilities in the normal course of business. The consolidated entity will require funding to progress with its core research and development activities.

The funding requirements of the consolidated entity are reviewed on a regular basis by the consolidated entity's Directors and are reported to the Board at each board meeting to ensure the consolidated entity can meet its financial obligations as and when they fall due. Until sufficient operating cash flows are generated from its operations, the consolidated entity remains reliant on equity raisings as well as asset divestments to fund its research and development activities.

The Company continues to actively develop funding options in order that it can meet its planned future discretionary expenditure.

Further information is provided in Note 1 of the consolidated financial statements.

Dividends

No dividends were paid or declared during the year (2021: nil).

Events Subsequent to Reporting Date

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

On 31 August 2022, the Company requested suspension from trading in the Australian Securities Exchange (ASX) pending the release of an announcement regarding a proposed material acquisition. ASX has exercised its discretion under Listing Rule 11.1.2 to require the Proposed Acquisition to be conditional on approval by the Company's ordinary security holders and under Listing Rule 11.1.3 to require the Company to recomply with Chapters 1 and 2 of the Listing Rules. It is expected that the Company's securities will remain suspended until the Company has recompiled with Chapters 1 and 2 of the Listing Rules. As at the report date, the Company has not yet complied with Chapters 1 and 2 of the Listing Rules.

REVIEW OF OPERATIONS (CONTINUED)

On 9 September 2022 the Company and EuroCann agreed to increase its existing loan facility provided by the Company under the Secured Loan Agreement by an additional A$3.75 million.

On 9 September 2022, the Company announced its wholly-owned subsidiary, AusCann Operations Pty Ltd (AusCann Ops) has entered into a conditional contract for the sale of the property held by AusCann Ops at 11 Excellence Drive, Wangara WA 6065 for $7,000,000.

Auscann Chief Executive Officer Mr Layton Mills tendered his resignation on 13 September 2022. Mr Mills will continue to work in the company during his 6-month resignation period.

Other than as identified above, no events occurring subsequent to the end of financial year have significantly affected, or may significantly affect, the operations of the consolidated entity in subsequent financial years.

Indemnification and Insurance of Officers and Auditors

The consolidated entity has indemnified the directors and executives of the consolidated entity for costs incurred, in their capacity as a director or executive, for which they may be held personally liable, except where there is a lack of good faith.

During the financial year, the consolidated entity paid a premium in respect of a contract to insure the directors and executives of the consolidated entity against a liability to the extent permitted by the *Corporations Act 2001*. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

The consolidated entity has not indemnified the auditor nor paid a premium to insure the auditor against any such liability.

Share Options and Rights

Unissued ordinary shares of the Company under option at the date of this report are as follows:

Grant Date	Expiry Date	Exercise Price	Number
9 June 2020	9 June 2023	$0.255	200,000
9 June 2020	9 June 2024	$0.255	200,000
18 March 2021	9 November 2022	$0.1538	325,000
18 March 2021	31 December 2024	$0.1538	650,000

No person entitled to exercise the options had or has any right by virtue of the option to participate in any share issue of the Company or of any other body corporate.

Shares Issued on the Exercise of Options

Nil (2020: Nil) shares were issued on exercise of options at various times during the year ended 30 June 2022. No ordinary shares were issued on the conversion of performance shares and rights during the years ended 30 June 2022 and 30 June 2021.

Corporate Governance

The Board of AusCann has responsibility for corporate governance for the Company and its subsidiaries and has implemented policies, procedures and systems of control with the intent of providing a strong framework and practical means for ensuring good governance outcomes which meet the expectations of all stakeholders.

The consolidated entity's corporate governance policies are outlined on its website at https://auscann.com.au/investors/corporate-governance/.

REMUNERATION REPORT (AUDITED)

This report, which forms part of the Directors' Report, outlines the remuneration arrangements in place for the key management personnel of the consolidated entity for the financial year ended 30 June 2022. The information provided in this remuneration report has been audited as required by Section 308(3C) of the *Corporations Act 2001*.

The remuneration report details the remuneration arrangements for key management personnel ("KMP") who are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the consolidated entity, directly or indirectly, including any director (whether executive or otherwise) of the consolidated entity.

Key Management Personnel

Directors

Tod McGrouther	Chairman	Appointed 14 December 2021
Krista Bates	Independent Non-Executive Director	Appointed 20 December 2019
Robert Clifford	Independent Non-Executive Director	Appointed 1 April 2021
Chris Mews	Non-Executive Director	Appointed 1 December 2019
Max Johnston	Independent Non- Executive Chairman	Appointed 20 December 2019 Resigned 15 November 2021
Bruce McHarrie	Independent Non-Executive Director	Appointed 19 January 2017 Resigned 15 November 2021
Dr Kathryn Adams	Independent Non-Executive Director	Appointed 1 April 2021 Resigned 14 December 2021
Geoff Starr	Independent Non-Executive Director	Appointed 1 April 2021 Resigned 14 December 2021

Other Key Management Personnel

Layton Mills	Chief Executive Officer	Commenced 18 March 2021 [1] Resigned 13 September 2022
Nick Woolf	Chief Executive Officer	Commenced 5 August 2020, Ceased 18 March 2021 (continued in advisory capacity until 30 June 2021)
Charles Altshuler	Chief Financial Officer	Commenced 29 March 2021 Resigned 11 March 2022
Dr Margaret Curtis	Head of Research and Development	Commenced 18 March 2021 [1]

1 Mr Mills and Dr Curtis previously held the same roles in CannPal prior to the Scheme for the acquisition of CannPal on 18 March 2021.

Remuneration Philosophy

The objective of the consolidated entity's reward framework is to set aggregate remuneration at a level which provides the consolidated entity with the ability to attract and retain directors and executives of the highest calibre whilst maintaining a cost which is acceptable to shareholders.

Non-Executive Directors

Fees and payments to non-executive directors reflect the demands which are made on, and the responsibilities of, the directors. Non-executive directors' fees and payments are reviewed by the board. The Chairman's fees are determined independently to the fees of non-executive directors based on comparative roles in the external market. The Chairman is not present at any discussions relating to determination of his own remuneration.

REMUNERATION REPORT (AUDITED) (CONTINUED)

Directors' Fees

Directors' fees are determined within an aggregate directors' fee pool limit, which is periodically recommended for approval by shareholders. The maximum for all non-executive directors currently stands at $500,000 in aggregate which was approved by Shareholders on 27 November 2018. This amount is separate from any specific tasks the directors may take on for the consolidated entity in the normal course of business and at normal commercial rates.

Fees for directors are not linked to the performance of the consolidated entity, however to align all directors' interests with shareholders' interests, directors are encouraged to hold shares in the Company and may receive options. This effectively links directors' performance to the share price performance and therefore to the interests of shareholders.

Executive Remuneration

The consolidated entity aims to reward executives (both directors and executives) with a level and mix of remuneration commensurate with their position and responsibilities within the consolidated entity and to:

- Reward executives for consolidated entity performance;
- Align the interest of executives with those of shareholders; and
- Ensure total remuneration is competitive by market standards.

Fixed remuneration is reviewed annually or upon renewal of fixed term contracts by the board and the process consists of a review of consolidated entity and individual performance, relevant comparative remuneration in the market and internal policies and practices. Executives are given the opportunity to receive their fixed remuneration in a variety of forms including cash and fringe benefits. It is intended that the manner of payment chosen will be optimal for the recipient without creating undue cost for the consolidated entity.

The objective of variable remuneration provided is to reward executives in a manner which aligns this element of remuneration with the creation of shareholder wealth. Variable remuneration may be delivered in the form of share options granted with or without vesting conditions.

Remuneration for certain individuals is directly linked to individual performance milestones.

REMUNERATION REPORT (AUDITED) (CONTINUED)

Executive Remuneration (Continued)

Employment Contracts

Name	Base Salary	Incentives	Termination Conditions
Layton Mills Chief Executive Officer (commenced 18 March 2021)	$275,000 p.a. plus 9.5% superannuation guarantee (10% superannuation guarantee from 1 July 2021).	• Short-term incentive of up to 25% of executive remuneration based on the achievement of certain KPIs, payable in cash each year. • Long-term incentive of four equal tranches of 500,000 performance rights each* under the AusCann Employee Securities Incentive Plan approved by shareholders on 27 November 2018 to Mr Mills which will vest subject to achievement of the following goals: 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 minimum of $1.00 for 30 consecutive days. On vesting, fully paid ordinary shares will be issued within 12 months of vesting subject to Mr Mills being employed by the Company at that time or the Company releasing this obligation at the time of issuing the shares. Following issue, 50% of the shares will be held in escrow for a further 12 months. In the event of a takeover and change of control, the share price hurdles will be deemed to have been achieved if the takeover consideration meets the minimum share price hurdle.	• 6 months' written notice by either party, or immediate termination if serious misconduct.
Charles Altshuler Chief Financial Officer ("CFO") (commenced 29 March 2021) (Resigned 11 March 2022)	$240,000 p.a. plus 9.5% superannuation guarantee (10% superannuation guarantee from 1 July 2021).	Long-term incentive of four equal tranches of 250,000 performance rights each* under the AusCann Employee Securities Incentive Plan approved by shareholders on 27 November 2018 to Mr Altshuler which will vest subject to achievement of the following goals: 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 minimum of $1.00 for 30 consecutive days. On vesting, fully paid ordinary shares will be issued within 12 months of vesting.	• 3 months' written notice by either party, or immediate termination if serious misconduct. • Initial 3-month probation period.
Dr Margaret Curtis Head of Research and Development (commenced 18 March 2021)	$180,000 p.a. plus 9.5% superannuation guarantee (10% superannuation guarantee from 1 July 2021).	Long-term incentive of four equal tranches of 125,000 performance rights each** under the AusCann Employee Securities Incentive Plan approved by shareholders on 27 November 2018 to Dr Curtis which will vest subject to achievement of the following goals: 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 minimum of $1.00 for 30 consecutive days. On vesting, fully paid ordinary shares will be issued within 12 months of vesting.	• 3 months' written notice by either party, or immediate termination if serious misconduct. • Initial 6-month probation period.

** The performance rights for Mr Mills and Mr Altshuler were issued on 17 February 2022.*
*** Dr Curtis' performance rights are effective from 1 July 2021 and were issued on 17February 2022.*

REMUNERATION REPORT (AUDITED) (CONTINUED)

Executive Remuneration (Continued)

Details of Remuneration

Remuneration for the Year Ended 30 June 2022

	Short-Term Benefits: Director Fees and Salaries $	Short-Term Benefits: Cash Bonuses $	Short-Term Benefits: Advisor Fees $	Post-Employment Benefits $	Share-based Payments $	Total $	Value of Share-based Payments as a Proportion of Remuneration %
Directors							
Tod McGrouther [1]	48,349	-	-	-	-	**48,349**	-
Krista Bates	64,925	-	-	-	-	**64,925**	-
Robert Clifford	50,000	-	-	5,000	-	**55,000**	-
Chris Mews	50,000	-	-	-	-	**50,000**	
Max Johnston [2]	33,324	-	-	3,332	-	**36,656**	
Bruce McHarrie [2]	25,000	-	-	2,500	-	**27,500**	
Dr Kathryn Adams [3]	22,581	-	-	2,258	-	**24,839**	
Geoff Starr [3]	22,581	-	-	2,258	-	**24,839**	
Other Key Management Personnel							
Layton Mills [4]	275,000	-	-	27,500	37,640	**340,140**	11.1
Charles Altshuler [5]	190,154	-	-	19,015	16,085	**225,254**	7.1
Dr Margaret Curtis [6]	219,615	-	-	21,962	9,410	**250,987**	3.7
Total	**1,001,529**	**-**	**-**	**83,825**	**63,135**	**1,148,489**	**5.5**

1. Mr McGrouther was appointed Chairman on 14 December 2021.
2. Mr Johnston and Mr McHarrie resigned on 15 November 2021.
3. Dr Adams and Mr Starr resigned on 14 December 2021.
4. Mr Mills was appointed as Chief Executive Officer ("CEO") of AusCann on 18 March 2021 upon the acquisition of CannPal.
5. Mr Altshuler was appointed as CFO of AusCann on 29 March 2021. Mr Altshuler resigned on 11 March 2022.
6. Dr Curtis commenced as Head of Research and Development of AusCann on 18 March 2021 upon the acquisition of CannPal. Upon her commencement she was granted 975,000 AusCann options as part of the Scheme based on 750,000 CannPal options which she held immediately prior to the Scheme. The 975,000 options were valued at $74,103 however there is no share-based payment expense relating to these options as these was part of the purchase consideration to acquire CannPal.

REMUNERATION REPORT (AUDITED) (CONTINUED)

Executive Remuneration (Continued)

Details of Remuneration (Continued)

Remuneration for the Year Ended 30 June 2021

	Short-Term Benefits: Director Fees and Salaries $	Short-Term Benefits: Cash Bonuses $	Short-Term Benefits: Advisor Fees $	Post-Employment Benefits $	Share-based Payments $	Total $	Value of Share-based Payments as a Proportion of Remuneration %
Directors							
Max Johnston	79,977	-	-	7,598	-	**87,575**	-
Dr Kathryn Adams [1]	12,500	-	-	1,188	-	**13,688**	-
Krista Bates	50,000	-	-	3,563	-	**53,563**	-
Robert Clifford [1]	12,500	-	-	1,188	-	**13,688**	-
Bruce McHarrie	60,000	-	-	5,700	-	**65,700**	-
Chris Mews	50,000	-	-	4,750	-	**54,750**	-
Geoff Starr [1]	12,500	-	-	1,188	-	**13,688**	-
Dr Marcel Bonn-Miller [2]	17,331	-	-	-	-	**17,331**	-
Other Key Management Personnel							
Layton Mills [3]	57,481	-	-	5,461	4,423	**67,365**	6.6
Nick Woolf [4]	268,846	-	-	22,137	-	**290,983**	-
Ido Kanyon [5]	94,511	-	-	4,911	81,142	**180,564**	44.9
Charles Altshuler [6]	56,308	-	-	5,349	1,841	**63,498**	2.9
Dr Margaret Curtis [7]	26,308	-	-	2,499	-	**28,807**	-
Total	**798,262**	**-**	**-**	**65,532**	**87,406**	**951,200**	**9.2**

1 Dr Adams, Mr Clifford and Mr Starr were appointed as Non-Executive Directors on 1 April 2021.
2 Dr Bonn-Miller resigned on 3 October 2020.
3 Mr Mills was appointed as Chief Executive Officer ("CEO") of AusCann on 18 March 2021 upon the acquisition of CannPal.
4 Mr Woolf commenced on 5 August 2020 and ceased to be CEO on 18 March 2021, however he continued thereafter in an advisory capacity until 30 June 2021.
5 Mr Kanyon, the CEO prior to Mr Woolf, resigned on 30 August 2020. His salary during the year included an annual leave payout of $16,568 and a severance payment of $26,250.
6 Mr Altshuler was appointed as CFO of AusCann on 29 March 2021.
7 Dr Curtis commenced as Head of Research and Development of AusCann on 18 March 2021 upon the acquisition of CannPal. Upon her commencement she was granted 975,000 AusCann options as part of the Scheme based on 750,000 CannPal options which she held immediately prior to the Scheme. The 975,000 options were valued at $74,103 however there is no share-based payment expense relating to these options as these was part of the purchase consideration to acquire CannPal.

REMUNERATION REPORT (AUDITED) (CONTINUED)

Key Management Personnel Equity Holdings

Fully Paid Ordinary Shares of the Company Held Either Directly or Indirectly:

	Opening Balance 1 July 2021	Received as part of Remuneration	Held on appointment / (resignation)	Additions	Disposals	Closing Balance 30 June 2022
	No.	*No.*	*No.*	*No.*	*No.*	*No.*
Directors						
Tod McGrouther [1]	-	-	-	-	-	**-**
Krista Bates	427,500	-	-	-	-	**427,500**
Robert Clifford	624,380	-	-	-	-	**624,380**
Chris Mews	279,689	-	-	-	-	**279,689**
Max Johnston [2]	1,000,000	-	(1,000,000)	-	-	**-**
Bruce McHarrie [2]	114,286	-	(114,286)	-	-	**-**
Dr Kathryn Adams [3]	-	-	-	-	-	**-**
Geoff Starr [3]	360,000	-	(360,000)	-	-	**-**
Other Key Management Personnel						
Layton Mills	12,532,232	-	-	-	-	**12,532,232**
Charles Altshuler [4]	-	-	-	-	-	**-**
Dr Margaret Curtis	-	-	-	-	-	**-**

1 Mr McGrouther was appointed Chairman on 14 December 2021.
2 Mr Johnston and Mr McHarrie resigned on 15 November 2021.
3 Dr Adams and Mr Starr resigned on 14 December 2021.
4 Mr Altshuler resigned on 11 March 2022.

Options of the Company Held Either Directly or Indirectly:

	Opening Balance 1 July 2021	Granted	Exercised	Expired / Forfeited / Other	Closing Balance at 30 June 2022
	No.	*No.*	*No.*	*No.*	*No.*
Directors					
Tom McGrouther [1]	-	-	-	-	-
Krista Bates	-	-	-	-	-
Robert Clifford	-	-	-	-	-
Chris Mews	-	-	-	-	-
Max Johnston [2]	-	-	-	-	-
Bruce McHarrie [2]	-	-	-	-	-
Dr Kathryn Adams [3]	-	-	-	-	-
Geoff Starr [3]	-	-	-	-	-
Other Key Management Personnel					
Layton Mills	-	-	-	-	-
Charles Altshuler [4]	-	-	-	-	-
Dr Margaret Curtis	975,000	-	-	-	975,000

1 Mr McGrouther was appointed Chairman on 14 December 2021.
2 Mr Johnston and Mr McHarrie resigned on 15 November 2021.
3 Dr Adams and Mr Starr resigned on 14 December 2021.
4 Mr Altshuler resigned on 11 March 2022.

REMUNERATION REPORT (AUDITED) (CONTINUED)

Key Management Personnel Equity Holdings (Continued)

Options and Performance Rights of the Company Held Either Directly or Indirectly:

	Opening Balance 1 July 2021	Granted	Exercised	Expired / Forfeited / Other	Closing Balance at 30 June 2022
	No.	*No.*	*No.*	*No.*	*No.*
Directors					
Tom McGrouther[1]	-	-	-	-	-
Krista Bates	-	-	-	-	-
Robert Clifford	-	-	-	-	-
Chris Mews	-	-	-	-	-
Max Johnston[2]	-	-	-	-	-
Bruce McHarrie[2]	-	-	-	-	-
Dr Kathryn Adams[3]	-	-	-	-	-
Geoff Starr[3]	-	-	-	-	-
Other Key Management Personnel					
Layton Mills	-	2,000,000	-	-	2,000,000
Charles Altshuler[4]	-	1,000,000	-	(1,000,000)	-
Dr Margaret Curtis	975,000	500,000	-	-	1,475,000

1 Mr McGrouther was appointed Chairman on 14 December 2021.
2 Mr Johnston and Mr McHarrie resigned on 15 November 2021.
3 Dr Adams and Mr Starr resigned on 14 December 2021.
4 Mr Altshuler resigned on 11 March 2022.

Other Transactions with Key Management Personnel and their Related Parties

There were no payments or transactions with related parties during the year.

This concludes the Remuneration Report, which has been Audited.

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.

Auditor

PKF Perth continues in office in accordance with section 327 of the *Corporations Act 2001*.

This report is made in accordance with a resolution of directors, pursuant to section 298(2)(a) of the *Corporations Act 2001*.

On behalf of the directors

T. McGr

Tod McGrouther
Chairman

30 September 2022

Advisory • Audit
Business Solutions

AUDITOR'S INDEPENDENCE DECLARATION

TO THE DIRECTORS OF AUSCANN GROUP HOLDINGS LTD

In relation to our audit of the financial report of AusCann Group Holdings Ltd for the year ended 30 June 2022, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

PKF Perth

PKF PERTH

S Fermanis

SIMON FERMANIS
AUDIT PARTNER

30 SEPTEMBER 2022
WEST PERTH
WESTERN AUSTRALIA

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AUSCANN GROUP HOLDINGS LTD
ABN 72 008 095 207

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	**2**	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	**2(i)**	(1,715,956)	(2,645,529)
Consulting fees	**2(ii)**	(223,273)	(422,279)
Merger and acquisition fees		-	(1,172,798)
Research and development (direct costs)	**2(iii)**	(1,474,512)	(2,947,926)
Depreciation and amortisation	**2(iv)**	(1,838,120)	(685,794)
Corporate / Administration expenses		(830,677)	(1,448,050)
Impairment of inventories	**7**	(183,306)	(2,593,417)
Impairment of investment properties	**9**	(3,854,973)	-
Impairment of plant and equipment	**10**	(759,067)	-
Impairment of intangible assets	**11**	(15,458,575)	-
Other expenses	**2(v)**	(628,402)	(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	**3**	-	-
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)	**4**	(5.66)	(3.00)
Loss per share from Continuing and Discontinued Operations			
Basic and diluted loss per share (cents)	**4**	(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.

AUSCANN GROUP HOLDINGS LTD
ABN 72 008 095 207

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2022

	Note	2022 $	2021 $
CURRENT ASSETS			
Cash and cash equivalents	**6**	5,716,641	13,679,923
Inventories	**7**	-	212,898
Other current assets	**13**	1,356,076	1,336,945
Total Current Assets		**7,072,717**	**15,229,766**
NON-CURRENT ASSETS			
Right-of-use asset	**8**	38,624	84,972
Investment property	**9**	7,200,000	11,111,439
Plant and equipment	**10**	23,728	854,061
Intangible assets	**11**	-	17,037,944
Other non-current assets	**13**	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	**14**	132,086	467,095
Lease liabilities	**8**	39,873	45,433
Employee entitlements	**15**	123,743	139,266
Total Current Liabilities		**295,702**	**651,794**
NON-CURRENT LIABILITIES			
Lease liabilities	**8**	-	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	**16**	93,165,187	93,165,187
Reserves	**17**	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.

AUSCANN GROUP HOLDINGS LTD
ABN 72 008 095 207

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) (refer to Note 16)	17,696,555	524,049	-	18,220,604
Share-based payments (refer to Notes 17 and 18)	-	212,511	-	212,511
Expired options (refer to Note 18)	-	(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 (refer to Notes 17 and18)	-	84,542	-	84,542
Expired options (refer to Note 17)	-	(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.

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	**20**	**(2,831,014)**	**(6,931,938)**
CASH FLOW FROM INVESTING ACTIVITIES			
Payments for loans to DayaCann	**12(c)**	-	(45,518)
Payments for buildings and building improvements	**9**	(84,269)	(23,301)
Payments for plant and equipment	**10**	(402)	(9,016)
Payments for loan to European Cannabis Corporation		(5,000,000)	-
Net cash received on acquisition of CannPal		-	899,829
Proceeds from sale of DayaCann JV	**12(c)**	-	527,763
Proceeds from transfer of DayaCann loan	**12(c)**	-	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	**6**	**5,716,641**	**13,679,923**

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

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES

These financial statements and notes represent those of AusCann Group Holdings Ltd ("the Company") and its controlled entities (collectively "the consolidated entity") for the year ended 30 June 2022.

AusCann Group Holdings Ltd is a company limited by shares incorporated and domiciled in Australia. The financial statements were authorised for issue in accordance with a resolution of directors on 30 September 2022. The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

Basis of Preparation
These general-purpose financial statements have been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*, as appropriate for 'for-profit' oriented entities. The consolidated financial report also complies with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

The financial report is presented in Australian dollars, which is the consolidated entity's functional and presentation currency. The financial statements have been prepared on an accruals basis and are based on historical costs, where applicable, except for the revaluation of financial assets and financial liabilities at fair value through profit or loss, financial assets at fair value through other comprehensive income and certain classes of property, plant and equipment.

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the consolidated entity's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 1(z).

Going Concern Basis
The Directors believe it is appropriate to prepare the consolidated financial statements on a going concern basis, which contemplates continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business.

The consolidated entity made a loss of $24,942,353 from continuing operations and had cash outflows from operating activities of $2,831,014. At 30 June 2022, the Group had cash and cash equivalents of $5,716,641.

In August 2022, the consolidated entity provided $3,750,000 to European Cannabis Corporation Limited ('EuroCann') as part of its secured loan facility.

The consolidated entity requires funding within the next twelve months to meet its ongoing administrative expenses, any core research and development activities and for any new business opportunities that the consolidated entity may pursue. The Directors note the significant reduction in operating expenditure for the 2022 financial year and based on current activities expect expenditure to further reduce for the 2023 financial year.

The Directors believe that the consolidated entity will be able to secure sufficient funding to meet the requirements to continue as a going concern, due to its intention to sell its investment property under a conditional contract within the next twelve months, which creates uncertainty. As at the date of this report the Company, after receiving multiple offers on the property, have signed a contract for sale of the property and the Directors are confident this contract will complete.

The Directors consider the going concern basis of preparation to be appropriate based on its forecast cash flows for the next twelve months and that the consolidated entity will be in a position to continue to meet its minimum administrative and research and development expenditures for at least twelve months from the date of this report.

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

If further funds are not able to be raised or realised, then it may be necessary for the consolidated entity to reduce discretionary administrative expenditure.

The ability of the consolidated entity to achieve its forecast cash flows, particularly the sale of its investment property, represents a material uncertainty that may cast significant doubt about whether the consolidated entity can continue as a going concern, in which case it may not be able to realise its assets and extinguish its liabilities in the normal course of business and at the stated amounts in the financial statements.

New or Revised Accounting Standards and Interpretations Adopted

The consolidated entity has adopted all the new or revised Accounting Standards and Interpretations issued by the Australian Accounting Standards Board that are mandatory for the current reporting period. Any new or revised Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the consolidated entity.

New and Revised Accounting Standards and Interpretations on Issue but Not Yet Effective

There are no standards that are not yet effective and that would be expected to have a material impact on the financial results or position of the consolidated entity in the current or future reporting periods and on foreseeable future transactions.

Accounting Policies

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to the consolidated entity for all the years presented, unless otherwise stated:

(a) Revenue

Sale of Goods
Revenue from the sale of goods is recognised at the point in time when the customer obtains control of the goods.

Interest
Interest revenue is recognised on an accruals basis.

Government Grants
Government grants are recognised when there is reasonable assurance that the grant will be received and all attached conditions will be complied with.

Other Revenue
Other revenue is recognised when it is received or when the right to receive payment is established.

(b) Income Tax

The income tax expense or benefit for the year is the tax payable on that year's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounting Policies (Continued)

(b) Income Tax (Continued)

- When the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or
- When the taxable temporary difference is associated with interests in subsidiaries, associates or joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses. The carrying amount of recognised and unrecognised deferred tax assets are reviewed each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entity's which intend to settle simultaneously.

(c) Goods and Services Tax (GST and Other Similar Taxes)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the Statement of Financial Position are shown inclusive of GST.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows.

(d) Cash and Cash Equivalents

For the purposes of the statements of cash flows, cash includes cash on hand and at call deposits with banks or financial institutions, investments in money market instruments maturing within less than two months, net of bank overdrafts.

(e) Other Receivables

Other receivables are recognised at amortised cost, less any allowance for expected credit losses.

(f) Investments and other financial assets

Investments and other financial assets are initially measured at fair value. Transaction costs are included as part of the initial measurement, except for financial assets at fair value through profit or loss. Such assets are subsequently measured at either amortised cost or fair value depending on their classification. Classification is determined based on both the business model within which such assets are held and the contractual cash flow characteristics of the financial asset unless an accounting mismatch is being avoided.

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounting Policies (Continued)

(f) Investments and other financial assets (Continued)

Financial assets are derecognised when the rights to receive cash flows have expired or have been transferred and the consolidated entity has transferred substantially all the risks and rewards of ownership. When there is no reasonable expectation of recovering part or all of a financial asset, it's carrying value is written off.

Financial assets at fair value through profit or loss
Financial assets not measured at amortised cost or at fair value through other comprehensive income are classified as financial assets at fair value through profit or loss. Typically, such financial assets will be either: (i) held for trading, where they are acquired for the purpose of selling in the short-term with an intention of making a profit, or a derivative; or (ii) designated as such upon initial recognition where permitted. Fair value movements are recognised in profit or loss.

Financial assets at fair value through other comprehensive income
Financial assets at fair value through other comprehensive income include equity investments which the consolidated entity intends to hold for the foreseeable future and has irrevocably elected to classify them as such upon initial recognition.

(g) Investment Properties

Investment properties principally comprise of freehold land and buildings held for long-term rental and capital appreciation that are not occupied by the consolidated entity. Investment properties are initially recognised at cost, including transaction costs, and are subsequently remeasured annually at fair value. Movements in fair value are recognised directly to profit or loss.

Investment properties are derecognised when disposed of or when there is no future economic benefit expected.

Transfers to and from investment properties to property, plant and equipment are determined by a change in use of owner-occupation. The fair value on the date of change of use from investment properties to property, plant and equipment are used as deemed cost for the subsequent accounting. The existing carrying amount of property, plant and equipment is used for the subsequent accounting cost of investment properties on the date of change of use.

Investment properties also include properties under construction for future use as investment properties. These are carried at fair value, or at cost where fair value cannot be reliably determined and the construction is incomplete.

(h) Plant and Equipment

Plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounting Policies (Continued)

(h) Plant and Equipment (Continued)

Depreciation is calculated on a straight-line basis to write off the net cost of each item of plant and equipment over their expected useful lives as follows:

Computer equipment	3 years
Furniture and fittings	3-5 years
Plant & equipment	3-5 years

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

(i) Intangible Assets

Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at their fair value at the date of the acquisition. Intangible assets acquired separately are initially recognised at cost. Indefinite life intangible assets are not amortised and are subsequently measured at cost less any impairment. Finite life intangible assets are subsequently measured at cost less amortisation and any impairment. The gains or losses recognised in profit or loss arising from the derecognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

Acquired Intellectual Property
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:

(i) CannPal's lead nutraceutical product, DermaCann®, which is developed using active ingredients from the hemp plant to target dermatological skin conditions in dogs;

(ii) CPAT-01 is CannPal's lead pain and inflammation drug for the large and growing veterinary pain market. It is a liquid, oral veterinary medicine containing standardised THC and CBD extracts in a proprietary ratio to target pain and inflammation in dogs; and

(iii) MicroMAX®, which protects sensitive oils from oxidation and enables them to be incorporated into a wide range of end applications.

The Group amortises 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.

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounting Policies (Continued)

(j) Interests in Joint Ventures

A joint venture is a type of joint arrangement whereby the parties that have joint control have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The consolidated entity's investment in its joint venture, DayaCann, is accounted for using the equity method. Under the equity method, the investment in the joint venture is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the consolidated entity's share of net assets of the joint venture since the acquisition date.

The consolidated entity's share of the joint venture's results is reported in profit or loss.

(k) Trade and Other Payables

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether or not billed. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

(l) Employee Benefits

Provision is made for the consolidated entity's liability for employee benefits arising from services rendered by employees to reporting date. Employee benefits expected to be settled within one year together with entitlements arising from wages and salaries and annual leave which will be settled after one year, have been calculated at undiscounted amounts based on remuneration wage and salary rates that the consolidated entity expects to pay as at each reporting date, including related on-costs.

Other employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those entitlements. Consideration is given to expected future increases in wage and salary rates, including related on-costs and expected settlement dates based on turnover history.

Contributions are made by the consolidated entity to superannuation funds of each employee's choosing and are charged as expenses when incurred.

(m) Issued Capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(n) Impairment of Financial Assets

The consolidated entity recognises a loss allowance for expected credit losses on financial assets which are either measured at amortised cost or fair value through other comprehensive income. The measurement of the loss allowance depends upon the consolidated entity's assessment at the end of each reporting period as to whether the financial instrument's credit risk has increased significantly since initial recognition, based on reasonable and supportable information that is available, without undue cost or effort to obtain.

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounting Policies (Continued)

(n) Impairment of Financial Assets (Continued)

Where there has not been a significant increase in exposure to credit risk since initial recognition, a 12-month expected credit loss allowance is estimated. This represents a portion of the asset's lifetime expected credit losses that is attributable to a default event that is possible within the next 12 months. Where a financial asset has become credit impaired or where it is determined that credit risk has increased significantly, the loss allowance is based on the asset's lifetime expected credit losses. The amount of expected credit loss recognised is measured on the basis of the probability weighted present value of anticipated cash shortfalls over the life of the instrument discounted at the original effective interest rate.

For financial assets measured at fair value through other comprehensive income, the loss allowance is recognised within other comprehensive income. In all other cases, the loss allowance is recognised in profit or loss.

(o) Impairment of Non-Financial Assets

Goodwill and other intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

(p) 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.

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounting Policies (Continued)

(p) Fair Value Measurement (Continued)

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.

(q) Share-Based Payments

Equity settled share-based compensation benefits are provided to employees or other suppliers.

Equity settled transactions are awards of shares, or options over shares, that are provided to employees or other suppliers in exchange for the rendering of services or provision of goods.

The cost of equity settled transactions are measured at fair value on grant date. Fair value is independently determined the binomial options pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option, together with non-vesting conditions that do not determine whether the consolidated entity received the services or goods that entitle the employees or other suppliers to receive payment. No account is taken of any other vesting conditions.

The cost of equity settled transactions is recognised as an expense with a corresponding increase in equity over the vesting period. The cumulative charge to profit or loss is calculated based on the grant date fair value of the award, the best estimate of the number of awards that are likely to vest and the expired portion of the vesting period. The amount recognised in profit or loss for the period is the cumulative amount calculated at each reporting date less amounts already recognised in previous periods.

(r) Comparatives

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

(s) Current and Non-Current Classification

Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in the consolidated entity's normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is classified as current when: it is either expected to be settled in the consolidated entity's normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounting Policies (Continued)

(t) Principles of Consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of AusCann Group Holdings Ltd ("the Company" or "parent entity") as at 30 June 2022 and the results of its controlled entities for the year then ended. AusCann Group Holdings Ltd and its controlled entities together are referred to in these financial statements as the "consolidated entity".

Subsidiaries are all those entities over which the consolidated entity has control. The consolidated entity controls an entity when the consolidated entity is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the consolidated entity. They are deconsolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the consolidated entity are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the consolidated entity.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Where the consolidated entity loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The consolidated entity recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

(u) Inventories

Raw materials, work in progress and finished goods are stated at the lower of cost and net realisable value on a weighted average cost basis. Cost comprises of direct materials and delivery costs, direct labour, import duties and other taxes, an appropriate proportion of variable and fixed overhead expenditure based on normal operating capacity, and, where applicable, transfers from cash flow hedging reserves in equity. Costs of purchased inventory are determined after deducting rebates and discounts received or receivable.

Stock in transit is stated at the lower of cost and net realisable value. Cost comprises of purchase and delivery costs, net of rebates and discounts received or receivable.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounting Policies (Continued)

(v) Lease Liabilities

Except for short-term leases and leases of low-value assets, a lease liability is recognised at the commencement date of a lease. The lease liability is initially recognised at the present value of the lease payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the consolidated entity's incremental borrowing rate. Lease payments comprise of fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur, and any anticipated termination penalties. The variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred.

Lease liabilities are measured at amortised cost using the effective interest method. The carrying amounts are remeasured if there is a change in the following: future lease payments arising from a change in an index or a rate used; residual guarantee; lease term; certainty of a purchase option and termination penalties. When a lease liability is remeasured, an adjustment is made to the corresponding right-of use asset, or to profit or loss if the carrying amount of the right-of-use asset is fully written down.

(w) Right-of-Use Assets

A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred, and, except where included in the cost of inventories, an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset.

Right-of-use assets are depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. Where the consolidated entity expects to obtain ownership of the leased asset at the end of the lease term, the depreciation is over its estimated useful life. Right-of use assets are subject to impairment or adjusted for any remeasurement of lease liabilities.

The consolidated entity has elected not to recognise a right-of-use asset and corresponding lease liability for short-term leases with terms of 12 months or less and leases of low-value assets. Lease payments on these assets are expensed to profit or loss as incurred.

(x) Operating Segments and Segment Reporting

Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the chief operating decision makers. The chief operating decision makers are responsible for the allocation of resources to operating segments and assessing their performance. The chief operating decision makers have been identified as the Board of Directors of AusCann Group Holdings Ltd.

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounting Policies (Continued)

(y) Discontinued Operations

A discontinued operation is a component of the consolidated entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately on the face of the statement of profit or loss and other comprehensive income.

(z) Critical Accounting Estimates and Judgements

The Directors evaluate estimates and judgments incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the consolidated entity.

Share-based payments
The consolidated entity measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using a binomial 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 amount of assets and liabilities with the next annual reporting period, but may impact on profit or loss and equity.

Impairment of non-financial assets
The consolidated entity assesses impairment of non-financial assets at each reporting date by evaluating conditions specific to the consolidated entity 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 value-in-use calculations, which incorporate key estimates and assumptions.

Estimation of useful lives of assets
The consolidated entity determines the estimated useful lives and related depreciation and amortisation charges for its plant and equipment. The useful lives could change significantly due to technical innovation or some other unforeseen event.

Employee benefits provision
The liability for employee benefits expected to be settled more than 12 months from the reporting date are recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees at the reporting date. In determining the present value of the liability, estimates of attrition rates and pay increases through promotion and inflation have been taken into account.

Allowance for expected credit losses
The allowance for expected credit losses assessment requires a degree of estimation and judgement. It is based on the lifetime expected credit loss, grouped based on days overdue, and makes assumptions to allocate an overall expected credit loss rate for each group. These assumptions include recent sales experience and historical collection rates.

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounting Policies (Continued)

(z) Critical Accounting Estimates and Judgements (Continued)

Fair value measurement hierarchy
The consolidated entity 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.

Income tax
The consolidated entity is subject to income taxes in the jurisdictions in which it operates. Significant judgement is required in determining the provision for income tax. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The consolidated entity recognises liabilities for anticipated tax audit issues based on the consolidated entity's current understanding of the tax law. Where the final tax outcome of these matters is different from the carrying amounts, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

Recovery of deferred tax assets
Deferred tax assets are recognised for deductible temporary differences only if the consolidated entity considers it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Coronavirus (COVID-19) pandemic
Judgement has been exercised in considering the impacts that the Coronavirus (COVID-19) pandemic has had, or may have, on the consolidated entity based on known information. This consideration extends to the nature of the products and services offered, customers, supply chain, staffing and geographic regions in which the consolidated entity operates. Other than as addressed in specific notes, there does not currently appear to be either any significant impact upon the financial statements or any significant uncertainties with respect to events or conditions which may impact the consolidated entity unfavourably as at the reporting date or subsequently as a result of the Coronavirus (COVID-19) pandemic.

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

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounting Policies (Continued)

(z) Critical Accounting Estimates and Judgements (Continued)

Lease term
The lease term is a significant component in the measurement of both the right-of-use asset and lease liability. Judgement is exercised in determining whether there is reasonable certainty that an option to extend the lease or purchase the underlying asset will be exercised, or an option to terminate the lease will not be exercised, when ascertaining the periods to be included in the lease term. In determining the lease term, all facts and circumstances that create an economical incentive to exercise an extension option, or not to exercise a termination option, are considered at the lease commencement date. Factors considered may include the importance of the asset to the consolidated entity's operations; comparison of terms and conditions to prevailing market rates; incurrence of significant penalties; existence of significant leasehold improvements; and the costs and disruption to replace the asset. The consolidated entity reassesses whether it is reasonably certain to exercise an extension option, or not exercise a termination option, if there is a significant event or significant change in circumstances.

Incremental borrowing rate
Where the interest rate implicit in a lease cannot be readily determined, an incremental borrowing rate is estimated to discount future lease payments to measure the present value of the lease liability at the lease commencement date. Such a rate is based on what the consolidated entity estimates it would have to pay a third party to borrow the funds necessary to obtain an asset of a similar value to the right-of-use asset, with similar terms, security and economic environment.

Deferred consideration
The deferred consideration asset is the difference between the total sale consideration, usually on sale of an investment or a financial asset, and the amounts received up to the reporting date, discounted to net present value. The consolidated entity applies provisional accounting for the sale of its investments or financial assets. Any reassessment of the receivable during the earlier of the finalisation of the provisional accounting or 12 months from sale date is adjusted for retrospectively. Thereafter, at each reporting date, the deferred consideration asset is reassessed against revised estimates and any increase or decrease in the net present value of the asset will result in a corresponding gain or loss to profit or loss. The decrease in the asset resulting from the passage of time is recognised as a finance cost.

Valuation of investment property
All investments are measured at fair value and based on active market prices, adjusted if necessary for any difference in nature, location or condition of the specific asset.

Current economic developments and uncertainties influence the valuation of our investment properties. The methods and significant assumptions applied in determining the fair value of our investment properties are mainly due to (i) active market prices, (ii) the influence of so-called rent-free periods and vacancy rates, (iii) the discount rates and (iv) assumed trends in rents.

These market values are based on valuations by independent external valuation experts. The valuation is based on an open market value, supported by market evidence in which assets can be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction at the date of the valuation.

The valuations are based on a discounted cash flow (DCF) analysis with valuations based on market evidence. The DCF analyses are adjusted to existing lease agreements, in order to cover the full period of existing lease agreements. The DCF analyses are based on calculations of the future rental revenue in accordance with the terms in existing lease agreements and estimations of the rental values when the agreements expire. Investment properties are appraised at least on an annual basis by independent external appraisers.

NOTE 2: OTHER INCOME AND EXPENSES

	2022 $	2021 $
Government Grants		
Research and development grant incentive	1,484,379	1,561,518
Export market development grant	47,146	83,085
Government cashflow boost	-	-
WA payroll tax grant	-	17,500
	1,531,525	1,662,103

Expenses
Total expenses include the following specific expenses:

	2022 $	2021 $
(i) Employee Benefits		
Employee benefits expense	1,631,414	2,433,018
Share-based payment expense – employees (refer Note 18)	84,542	212,511
	1,715,956	2,645,529
(ii) Consulting Fees		
Consulting fees	223,273	422,279
	223,273	422,279
(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
	1,474,512	2,947,926
(iv) Depreciation and Amortisation		
Right-of-use asset	46,348	26,574
Investment properties (Note 9)	140,735	-
Plant and equipment (Note 10)	71,668	204,881
Intangible assets (Note 11)	1,579,369	454,339
	1,838,120	685,794
(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	374,492	227,238
	628,402	493,505

NOTE 3: INCOME TAX EXPENSE

	2022 $	2021 $
Reconciliation Between Tax Expense and Pre-Tax Profit		
Loss from continuing operations before tax	(24,942,353)	(10,575,645)
Profit/(Loss) from discontinued operations before tax	(1,415,429)	1,934,254
Total loss before tax	(26,357,782)	(8,641,391)

	2022 $	2021 $
NOTE 3: INCOME TAX EXPENSE (CONTINUED)		
Income tax benefit calculated at 25% (2021: 26%)	(6,589,445)	(2,246,762)
Adjusted for:		
Research and development tax incentive not taxable	(371,095)	(405,995)
Non-assessable gain on sale of DayaCann investment and transfer of loan	-	(514,741)
Other non-deductible expenses	415,566	90,234
Impact of reduction of future corporate tax rate	-	159,264
Tax losses and other deferred tax balances not recognised	6,544,974	2,918,000
Income tax expense	-	-

Deferred tax assets and liabilities have not been recognised in respect of the following:

	2022 $	2021 $
Deferred tax assets		
Business-related costs	295,714	587,730
Accrued expenses and payables	38,950	47,317
Provision for stock obsolescence	693,515	648,354
Fixed and intangible assets	5,412,996	215,185
Carry-forward revenue tax losses	8,202,281	7,720,440
Deferred tax assets not recognised	(14,643,456)	(9,219,026)
	-	-
Deferred tax liabilities		
Accrued income	63,334	22,310
Prepayments	62,047	88,801
Deferred tax liabilities not recognised	(125,381)	(111,111)
	-	-

The tax benefits of the above deferred tax assets will only be obtained if:

a) The consolidated entity derives future assessable income of a nature and of an amount sufficient to enable the benefits to be utilised;
b) The consolidated entity continues to comply with the conditions for deductibility imposed by law; and
c) No changes in income tax legislation adversely affect the consolidated entity in utilising the benefits.

The consolidated entity chose to form a tax consolidated group as at 1 July 2017, as a result tax loss have been consolidated and tested for future carry forward amounts available. Upon acquisition, CannPal joined the tax consolidated group as at 18 March 2021.

As at 30 June 2022, carry forward tax losses arising in Australia of $32,809,122 (2021: $27,250,511) are available indefinitely for offset against future taxable profits, subject to meeting eligibility criteria within the *Income Tax Assessment Act 1997*. Net deferred tax assets (net of deferred tax liabilities) have not been brought to account as it is not probable within the immediate future that taxable profits will be available against which the deferred tax assets could be recognised.

Change in Corporate Tax Rate

There has been a legislated change in the corporate tax rate that will apply to future income years. The impact of this reduction in the corporate tax rate has been reflected in the unrecognised deferred tax positions and the prima face income tax reconciliation above.

NOTE 4: 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	(5.98)	(2.45)

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		
Loss attributable to ordinary equity holders of the parent		
From continuing operations	(24,942,353)	(10,575,645)
From discontinued operations	(1,415,429)	1,934,254
Net loss for the year	(26,357,782)	(8,641,391)

	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 5: 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.

NOTE 5: SEGMENT DISCLOSURES (CONTINUED)

2022

Consolidated	Corporate $	Medicinal Cannabis Research and Development $	Discontinued Operations $	Total $
Revenue				
Sales	-	29,735	-	**29,735**
Less: Cost of goods sold	-	(43,303)	-	**(43,303)**
Net sales income (loss) from external customers	**-**	***(13,568)***	**-**	***(13,568)***
Government grants	-	1,531,525	-	**1,531,525**
Rental income	-	427,500	-	**427,500**
Interest received	30,021	-	-	**30,021**
Other income	-	49,030	-	**49,030**
Total Revenue	**30,021**	**1,994,487**	**-**	**2,024,508**
Expenses				
Employee benefits expense	-	1,631,414	-	**1,631,414**
Share based payment expense - employees	84,542	-	-	**84,542**
Consulting fees	-	223,273	-	**223,273**
Research and development (direct expenses)	-	1,474,512	-	**1,474,512**
Provision for credit losses	-	-	1,415,429	**1,415,429**
Depreciation and amortisation	9,926	1,828,193	-	**1,838,119**
Impairment of inventories	-	183,306	-	**183,306**
Impairment of investment properties	-	3,854,973	-	**3,854,973**
Impairment of intangible assets	-	15,458,575	-	**15,458,575**
Impairment of fixed assets	-	759,067	-	**759,067**
Corporate, administration and other expenses	7,144	1,451,936	-	**1,459,080**
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	**(71,591)**	**(24,870,762)**	**(1,415,429)**	**(26,357,782)**
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**

NOTE 5: SEGMENT DISCLOSURES (CONTINUED)

2021

Consolidated	Corporate $	Medicinal Cannabis Research and Development $	Discontinued Operations $	Total $
Revenue				
Sales	-	84,495	-	**84,495**
Less: Cost of goods sold	-	(69,929)	-	**(69,929)**
Net sales income from external customers	**-**	***14,566***	**-**	***14,566***
Government grants	-	1,662,103	-	**1,662,103**
Gain on disposal of right of use asset & liability	-	8,804	-	**8,804**
Rental income	-	71,250	-	**71,250**
Interest received	76,394	536	-	**76,930**
Gain on sale of DayaCann investment after income tax	-	-	523,003	**523,003**
Gain on transfer of DayaCann loan after income tax	-	-	1,456,769	**1,456,769**
Total Revenue	**76,394**	**1,757,259**	**1,979,772**	**3,813,425**
Expenses				
Employee benefits expense	-	2,433,018	-	**2,433,018**
Share based payment expense - employees	212,511	-	-	**212,511**
Consulting fees	-	422,279	-	**422,279**
Merger and acquisition costs	1,172,798	-	-	**1,172,798**
Research and development (direct expenses)	-	2,947,926	-	**2,947,926**
Joint venture expenses - impairment of loan in Dayacann	-	-	45,518	**45,518**
Depreciation and amortisation	16,400	669,394	-	**685,794**
Impairment of inventories	-	2,593,417	-	**2,593,417**
Corporate, administration and other expenses	427,163	1,514,393	-	**1,941,555**
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 6: 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 7: INVENTORIES

	2022 $	2021 $
Raw materials	2,772,723	2,774,058
Work in progress	-	2,665
Finished goods	4,000	29,592
Less: Provision for stock obsolescence (a)	(2,776,723)	(2,593,417)
	-	212,898

(a) Provision for Stock Obsolescence

The non-cash impairment of inventories during the year of $183,306 (2021: $2,593,417) relates to a write down on the value of resin raw materials and work in progress due to changes in the wholesale cost of cannabinoid resins resulting from downward pressure on API prices with increased competition in global markets. This has reduced the retail floor price of medical cannabis products reducing the net realisable value of the resins. There were also minimal sales of the Group's finished goods since the previous year and thus obsolescence has been provided for against the stock as at 30 June 2022. This provision will be reassessed as the group progresses with its research, development and commercialisation plans.

NOTE 8: 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)
	38,624	84,972
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	38,624	84,972
Lease Liabilities		
Current lease liabilities	39,873	45,433
Non-current lease liabilities	-	39,871
	39,873	85,304
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	39,873	85,304

NOTE 8: RIGHT-OF-USE ASSET AND LEASE LIABILITIES (CONTINUED)

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 9: 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.

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 (see Note 10).

In line with expected valuation cycles, the Company obtained a full valuation of the investment property prior to 30 June 2022. The investment property was valued at $7,200,000 by Jones Lang Lassale (JLL) at June 2022 which was based on a discounted cash flow (DCF) analysis, calculations of the future rental revenue in accordance with the terms in existing lease agreements and estimations of the rental values when the agreements expire. 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.

NOTE 9: INVESTMENT PROPERTY (CONTINUED)

	2022 $	2021 $
Amounts Recorded at Cost		
Investment property	11,349,505	11,265,237
Less: Accumulated depreciation and impairment	(4,149,505)	(153,798)
	7,200,000	11,111,439
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 (see Note 10)	-	11,111,439
Carrying amount at 30 June	7,200,000	11,111,439
Future Minimum Lease Payments Due from Tenant		
Within 1 year	475,000	316,667
1 to 2 years	475,000	475,000
2 to 3 years	475,000	475,000
3 to 4 years	395,833	475,000
4 to 5 years	-	395,833
	1,820,833	2,137,500

NOTE 10: PLANT AND EQUIPMENT

	2022 $	2021 $
Computer equipment at cost	40,730	40,328
Less: Accumulated depreciation	(37,315)	(31,709)
	3,415	8,619
Furniture and fittings at cost	90,087	90,087
Less: Accumulated depreciation	(73,934)	(67,221)
	16,153	22,866
Plant and equipment at cost	916,554	916,554
Less: Accumulated depreciation	(153,327)	(93,978)
Less: Impairment	(759,067)	-
	4,160	822,576
Total	**23,728**	**854,061**

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.

NOTE 10: 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 (see Note 9)	(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**	**782,795**

NOTE 11: 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)	-
	-	17,037,944

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.

NOTE 11: INTANGIBLE ASSETS (CONTINUED)

- **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.

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.

Further details of the valuation techniques and key assumptions approved by management of the Group is disclosed in Note 22.

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. The Group has considered the significantly longer than expected timeframe to complete relevant trials before commercialising this asset and the cost of commercialising this asset, which both include research and development expenditure and regulatory approval in some cases. Thus, a decision has been made not to invest the additional funds necessary to commercialise this asset. Accordingly, an impairment loss of $15,458,575 was recognised for the year ended 30 June 2022 (2021: Nil).

NOTE 12: 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 13 for further details.

NOTE 12: INTEREST IN JOINT VENTURE AND DISCONTINUED OPERATIONS (CONTINUED)

The consolidated entity's interest in the joint venture up to 22 March 2021 has been reported in the current period as a discontinued operation. Financial information relating to the discontinued operation for the period to the date of disposal is set out below:

(a) Financial Performance Information	**2022 $**	**2021 $**
Impairment of deferred consideration for the sale of Dayacann	**(1,415,429)**	
Impairment of loan to DayaCann	-	(45,518)
Gain on sale of the joint venture after income tax	-	523,003
Gain on transfer of the loan to DayaCann after income tax	-	1,456,769
Profit/(Loss) after Income Tax Expense from Discontinued Operations	**(1,415,429)**	**1,934,254**

(b) Cash Flow Information	**2022 $**	**2021 $**
Payments for loans to DayaCann	-	(45,518)
Proceeds from sale of DayaCann joint venture	-	527,763
Proceeds from transfer of DayaCann loan	-	125,991
Net cash generated from / (used in) investing activities	-	608,236
Net increase/(decrease) in cash and cash equivalents from discontinued operations	**-**	**608,236**

(c) Reconciliation of Profit/(Loss) After Tax from Discontinued Operations to Net Cash Used in Operating Activities of Discontinued Operations

	2022 $	**2021 $**
Profit/(Loss) after income tax expense from discontinued operations	(1,415,429)	1,934,254
Adjusted for:		
Impairment of deferred consideration for the sale of Dayacann	1,415,429	-
Impairment of loan to DayaCann	-	45,518
Gain on sale of DayaCann joint venture after income tax	-	(523,003)
Gain on transfer of DayaCann loan after income tax	-	(1,456,769)
	-	-

NOTE 13: 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
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)	-
Loan to European Cannabis Corporation (ii)	1,000,000	-
Short term deposits	42,000	162,178
	1,356,076	1,336,945
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
	4,115,090	801,179
	5,471,166	2,138,124

(i) Movement in provision for expected credit losses		
Balance at beginning of the year	-	-
Provision for expected credit losses during the period	1,415,429	-
Balance at the end of year	1,415,429	-

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 theGroup 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 fo the Australian and New Zealand markets (see Note 19). 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 with ECC grants security interest over all its assets and all the shares it holds in HAPA Parm 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 14: TRADE AND OTHER PAYABLES	2022 $	2021 $
Trade payables and accrued expenses	113,151	366,391
PAYG and superannuation payable	18,935	100,704
	132,086	467,095

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

NOTE 15: EMPLOYEE ENTITLEMENTS

	2022 $	2021 $
Current		
Provision for annual leave	123,743	139,266

NOTE 16: ISSUED CAPITAL

	2022 $	2021 $	2022 Number of Shares	2021 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(Note 18(a))	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 17: 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.

Movements in Share-Based Payments Reserve:	**2022** **$**	**2021** **$**
Opening balance	786,388	1,273,328
Options issued under acquisition scheme of arrangement (Notes 18(a))	-	524,049
Performance rights vesting to employees (refer to Notes 18(b))	77,484	186,789
Options vesting to employees (refer to Note 18(ec)	7,058	25,722
Exercised options	-	-
Adjustment for expired options	(742,941)	(1,223,500)
	127,989	786,388

The weighted average remaining contractual life of share options outstanding at the end of the year was 0.94 years (2021:0.98 years). The weighted average exercise price during the financial year was 0.20 (2021: $0.16).

Foreign Currency Translation Reserve
The foreign currency translation reserve is used to record exchange differences on translation of the consolidated entity's investment in DayaCann.

NOTE 18: SHARE-BASED PAYMENTS

The total expense arising from share-based payments for the financial year ended 30 June 2022 was $84,542 (2021: $212,511), as detailed below:

(a) Shares and Options Issued Under Scheme of Arrangement ("Scheme") for the Acquisition of CannPal Animal Therapeutics Limited ("CannPal")

On 18 March 2021, AusCann acquired 100% of CannPal via a Scheme whereby CannPal shareholders (and optionholders) received 1.3 AusCann shares (1.3 AusCann options) for each CannPal share (CannPal option) held on 15 March 2021. A total of 123,499,753 AusCann shares were issued to CannPal shareholders, and a total of 10,400,000 unlisted AusCann options were issued to CannPal optionholders as part of the Scheme on 18 March 2021.

The 10,400,000 unlisted AusCann options are exercisable at $0.1538 with 9,425,000 expiring on 24 March 2022, 325,000 expiring on 9 November 2022 and 650,000 expiring on 31 December 2024.

NOTE 18: SHARE-BASED PAYMENTS (CONTINUED)

(a) Shares and Options Issued Under Scheme of Arrangement ("Scheme") for the Acquisition of CannPal Animal Therapeutics Limited ("CannPal")

(i) Valuation of AusCann Shares Issued Under the Scheme

The consideration issued in respect to the 123,499,753 AusCann shares were valued at AusCann's closing price on 18 March 2021 of 14.5 cents (total market value of $17,907,464).

Shares Issued to the Non-Executive Directors
Part of the 123,499,753 AusCann shares issued to CannPal shareholders included 624,380 and 260,000 AusCann shares issued to Robert Clifford and Geoff Starr (AusCann's Non-Executive Directors appointed on 1 April 2021) respectively. These were based on 480,293 CannPal shares held by Mr Clifford and 200,000 CannPal shares held by Mr Starr immediately prior to the Scheme. No AusCann shares were issued to Messrs Clifford and Starr during the 2020 financial year.

Shares Issued to the Chief Executive Officer
Part of the 123,499,753 AusCann shares issued to CannPal shareholders included 12,532,232 AusCann shares issued to Layton Mills (AusCann's CEO appointed on 18 March 2021), which was based on 9,640,179 CannPal shares held by Mr Mills immediately prior to the Scheme. The 9,640,179 CannPal shares included 1,875,000 CannPal shares issued immediately prior to the acquisition due to their vesting upon a change of control. No AusCann shares were issued to Layton Mills during the 2020 financial year.

(ii) Valuation of 9,425,000 Unlisted AusCann Options Issued Under the Scheme

The fair value of the 9,425,000 unlisted options exercisable at $0.1538 and expiring on 24 March 2022 was calculated at $449,946 ($0.04774 each) using the Black-Scholes model with the following assumptions:

Fair value per option (cents)	4.774
Number of options	9,425,000
Total fair value of 9,425,000 unlisted options	$449,946
Assumptions	
Grant date	18 March 2021
Exercise price	$0.1538
Expiry date	24 March 2022
Spot price	$0.16
Expected volatility	72.11%
Dividend yield	Nil
Risk-free rate	0.09%

The above unlisted AusCann options were issued to one of AusCann's advisors as part of the Scheme. These options expired on 24 March 2022 without exercise or conversion.

NOTE 18: SHARE-BASED PAYMENTS (CONTINUED)

(a) Shares and Options Issued Under Scheme of Arrangement ("Scheme") for the Acquisition of CannPal Animal Therapeutics Limited ("CannPal")

(iii) Valuation of 325,000 and 650,000 Unlisted AusCann Options Issued (to Key Management Personnel) Under the Scheme

The fair value of the 325,000 and 650,000 unlisted options exercisable at $0.1538 and expiring on 9 November 2022 and 31 December 2024 respectively was calculated at $74,103 (being $0.05914 and $0.08443 each respectively) using the Black-Scholes model with the following assumptions:

	Tranche 1	*Tranche 2*
Fair value per option (cents)	5.914	8.443
Number of options	325,000	650,000
Total fair value of tranche	$19,221	$54,882
Assumptions		
Grant date	18 March 2021	18 March 2021
Exercise price	$0.1538	$0.1538
Expiry date	9 November 2022	31 December 2024
Spot price	$0.16	$0.16
Expected volatility	72.11%	72.11%
Dividend yield	Nil	Nil
Risk-free rate	0.09%	0.09%

The above 975,000 unlisted AusCann options were issued to Dr Margaret Curtis (one of AusCann's key management personnel) as part of the Scheme, based on 750,000 CannPal options exercisable at $0.20 each held by Dr Curtis immediately prior to the Scheme.

The value of the Scheme share-based payments above was recognised as part of the cost of acquisition of CannPal and no share-based payment expense was recognised with respect to the AusCann shares and unlisted AusCann options issued as part of the Scheme.

NOTE 18: SHARE-BASED PAYMENTS (CONTINUED)

(b) Performance Rights

(i) Performance Rights Issued to the Chief Executive Officer

In accordance with Mr Layton Mills' employment contract, the Company will be issuing 2,000,000 CEO Performance Rights to Mr Mills pursuant to the Company's Employee Securities Incentive Plan approved by Shareholders on 27 November 2018 as an incentive for future performance and to satisfy the Company's requirements in relation to the Long-Term Incentives under the CEO's executive appointment announced to the ASX on 23 April 2021, effective 18 March 2021.

The CEO Performance Rights will consist of four (4) equal tranches of 500,000 Performance Rights with market-based achievement goals over a three-year term commencing 18 March 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 CEO Performance Rights to be issued has been calculated at $188,200. The fair value was calculated using a Parisian Barrier valuation model and the following assumptions were used in the estimation:

	Tranche 1	*Tranche 2*	*Tranche 3*	*Tranche 4*
Fair value per right	$0.1196	$0.1004	$0.0841	$0.0723
Number of rights	500,000	500,000	500,000	500,000
Total fair value of tranche	$59,800	$50,200	$42,050	$36,150
Assumptions				
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 2,000,000 CEO Performance Rights were issued on 16 February 2022, and none of the performance rights vested during the year.

The share-based payment expense arising from the amortisation of the fair value of the above CEO Performance Rights was $37,640 during the year ended 30 June 2022 (2021: $4,423).

NOTE 18: SHARE-BASED PAYMENTS (CONTINUED)

(b) Performance Rights (Continued)

(ii) Performance Rights Issued to the Chief Financial Officer

In accordance with Mr Charles Altshuler employment contract, the Company will be issuing 1,000,000 CFO Performance Rights to Mr Altshuler pursuant to the Company's Employee Securities Incentive Plan approved by Shareholders on 27 November 2018 as an incentive for future performance as part of the CFO's executive appointment effective 29 March 2021.

The CFO Performance Rights will consist of four (4) equal tranches of 250,000 Performance Rights with market-based achievement goals over a three-year term commencing 29 March 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 CFO Performance Rights to be issued has been calculated at $94,100. The fair value was calculated using a Parisian Barrier valuation model and the following assumptions were used in the estimation:

	Tranche 1	*Tranche 2*	*Tranche 3*	*Tranche 4*
Fair value per right	$0.1196	$0.1004	$0.0841	$0.0723
Number of rights	250,000	250,000	250,000	250,000
Total fair value of tranche	$29,900	$25,100	$21,025	$18,075
Assumptions				
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 1,000,000 CFO Performance Rights were issued on 16 February 2022, and none of the performance rights vested during the year.

The share-based payment expense arising from the amortisation of the fair value of the above CFO Performance Rights was $16,085 during the year ended 30 June 2022 (2021: $1,841).

NOTE 18: SHARE-BASED PAYMENTS (CONTINUED)

(b) Performance Rights (Continued)

(iii) Performance Rights Issued to the Head of Research and Development

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 $6,083. The fair value was calculated using a Parisian Barrier valuation model and the following assumptions were used in the estimation:

	Tranche 1	*Tranche 2*	*Tranche 3*	*Tranche 4*
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
Assumptions				
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 500,000 Performance Rights were issued on 16 February 2022, and none of the performance rights vested during the year.

The share-based payment expense arising from the amortisation of the fair value of the above Performance Rights was $9,410 during the year ended 30 June 2022 (2021: Nil).

NOTE 18: SHARE-BASED PAYMENTS (CONTINUED)

(b) Performance Rights (Continued)

(iv) Performance Rights Issued to Other Employees

No performance rights were issued to other employees during the 2022 and 2021 financial year.

Employee Performance Rights were issued pursuant to the Company's Employee Securities Incentive Plan approved by Shareholders on 27 November 2018, in both the 2019 and 2020 financial years as follows:

- During the 2020 financial year, 1,527,200 performance rights were issued to employees with a 3-year vesting period subject to continued employment and market-based performance hurdles. They were valued at $198,841 at grant date and $8,971 vested during this year (2021: $156,595). The remaining 137,800 Class A Performance Rights lapsed at 30 June 2022.

- During the 2019 financial year 109,200 performance rights were issued to employees with a 3-year vesting period subject to continued employment and market-based performance hurdles. They were valued at $41,026 at grant date and $5,378 vested during this year (2021: $23,932). The remaining 43,300 Class A Performance Rights lapsed at 30 June 2022.

(c) Options Issued to Other Employees

No options were issued to other employees during the 2022 and 2021 financial year.

Two (2) tranches of 200,000 options each were issued on 9 June 2020 to Dr Marc Russo, Chief Medical Advisor and Chair of the AusCann Medical Advisory Board. The vesting conditions for each tranche were those of continuous employment of 1 year and 2 years respectively from date of grant. The exercise price for both tranches is $0.255.

The fair value of the options was calculated at a total $34,307 using the Hoadley ESO2 valuation model and the following assumptions:

	Tranche 1	*Tranche 2*
Fair value per option	$0.0802	$0.0941
Number of options	200,000	200,000
Total fair value of tranche	$16,040	$18,820
Assumptions		
Valuation date	20 March 2020	20 March 2020
Exercise price	$0.255	$0.255
Vesting date	10 June 2021	10 June 2022
Expiry date	9 June 2023	9 June 2024
Spot price	$0.18	$0.18
Expected future volatility	85%	85%
Dividend yield	Nil	Nil
Risk-free rate	0.29%	0.49%
Early exercise multiple	2.5x	2.5x

$7,058 vested during the year ended 30 June 2022 (2021: $25,722). An amount of $ Nil remains unvested at 30 June 2022 (2021: $7,611).

(v) Signing Bonus

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

NOTE 19: RELATED PARTY TRANSACTIONS

Key Management Personnel

The aggregate compensation made to directors and other members of key management personnel of the consolidated entity is set out below:

	2022 $	2021 $
Short-term benefits	1,001,529	798,262
Post-employment benefits	83,825	65,532
Share-based payments	63,135	87,406
	1,148,489	951,200

Transactions with Related Parties

During the year, Auscann entered into a strategic colaboration with European Cannabis Corporation Ltd (Eurocann) to explore mutual opportunities in the European and Australian cannabis markets. Mr Tod McGrouther is a director of Eurocann. In addition to the strategic collaboration, Auscann 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'). The terms of the loan are disclosed in Note 13 (ii).

There were no other payments or transactions with related parties during the year.

NOTE 20: NOTES TO THE STATEMENT OF CASH FLOWS

(a) Cash and Cash Equivalents

For the purposes of the statement of cash flows, cash and cash equivalents include cash on hand and deposits at call, net of outstanding bank overdrafts.

Reconciliation of Loss After Tax to Net Cash Used in Operating Activities

	2022 $	2021 $
Net loss after tax	(26,357,782)	(8,641,391)
Adjusted for:		
Gain on disposal of right of use asset and lease liability	-	(8,804)
Depreciation and amortisation	1,838,120	685,794
Share-based payments	84,542	212,511
Interest on unwinding of lease liabilities	2,166	2,615
Impairment of loan to DayaCann	1,415,429	45,518
Impairment of investment property	3,854,973	-
Impairment of inventories	183,306	-
Impairment of intangible assets	15,458,575	-
Impairment of fixed assets	759,067	-
Gain on sale of DayaCann joint venture	-	(523,003)
Gain on transfer of DayaCann loan	-	(1,456,769)
Changes in operating assets and liabilities, net of the effects of purchase and disposal of subsidiaries and joint venture:		
(Increase)/Decrease in receivables and other current assets	227,256	(172,650)
(Increase)/Decrease in inventories	29,592	3,394,673
(Increase)/Decrease in non-current prepayments	24,273	(139,363)
Increase/(Decrease) in trade and other payables	(335,008)	(285,628)
Increase/(Decrease) in provisions	(15,523)	(45,441)
	(2,831,014)	(6,931,938)

NOTE 20: NOTES TO THE STATEMENT OF CASH FLOWS (CONTINUED)

(b) Non-Cash Investing and Financing Activities

On 18 March 2021, the consolidated entity acquired 100% of CannPal Animal Therapeutics Limited ("CannPal") via a scheme of arrangement ("Scheme") which was completed via the issue of 123,499,753 fully paid ordinary shares and 10,400,000 options to CannPal shareholders and optionholders respectively.

There were no other non-cash investing and financing activities undertaken during the financial years ended 30 June 2022 and 30 June 2021.

NOTE 21: FINANCIAL INSTRUMENTS

(a) Capital Risk Management

The consolidated entity manages its capital to ensure that the consolidated entity will be able to continue as a going concern while maximising the return to stakeholders through optimising the debt and equity balance.

(b) Financial Risk Management

The consolidated entity's management team coordinates access to domestic financial markets, monitors and manages the financial risks relating to the operations of the consolidated entity and identifies any exposures by degree and magnitude of risks. These risks include credit risk, liquidity and cash flow interest rate risk and currency risk. The consolidated entity actively pursues avenues to minimise the effect of these risks.

Categories of Financial Instruments

	2022 $	2021 $
Financial Assets		
Cash and cash equivalents	5,716,641	13,679,923
Deferred consideration	-	1,326,018
Loan to European Cannabis Corporation	5,000,000	-
Other current assets (excluding prepayments)	247,251	456,902
	10,963,892	15,462,843
Financial Liabilities		
Trade and other payables	132,085	467,095
Lease liabilities	39,873	85,304
	171,958	552,399

(c) Foreign Currency Risk

The consolidated entity undertakes certain transactions denominated in United States dollars ("USD"), Canadian dollars, New Zealand dollars ("NZD"), Euros and British pounds and is exposed to foreign currency risk through foreign exchange rate fluctuations.

The consolidated entity's exposure to foreign currency risk at 30 June is shown in the following table.

	2022 $	2021 $
Financial Liabilities		
Trade and other payables denominated in USD	36,343	53,407
Trade and other payables denominated in NZD	8,239	5,030
Total financial liabilities denominated in foreign currency	*44,582*	*58,437*

NOTE 21: FINANCIAL INSTRUMENTS (CONTINUED)

(c) Foreign Currency Risk (Continued)

Foreign Currency Risk Sensitivity Analysis
The following sensitivity analysis is calculated using the foreign currency risk exposures in existence at the reporting date. The 5% (2021: 5%) sensitivity is based on reasonably possible changes over a financial year, using an observed range of actual historical rates, for the AUD/USD and AUD/NZD exchange rates.

At 30 June 2022, if the exchange rates had moved as illustrated in the table below, with all other variables held constant, post-tax profit and equity would have been affected as follows:

	2022 $	2021 $
AUD/USD + 5 %	(1,817)	(2,670)
AUD/USD – 5 %	1,817	2,670
AUD/NZD + 5 %	(412)	(251)
AUD/NZD – 5 %	412	251

(d) Credit Risk Management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the consolidated entity. The consolidated entity has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate. The consolidated entity's exposure and the credit ratings of its counterparties are continuously monitored. Credit exposure is controlled by counterparty limits that are reviewed periodically.

The consolidated entity does not have a significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The credit risk on liquid funds and borrowings is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

(e) Interest Rate Risk Management

The consolidated entity is exposed to interest rate risk as it holds cash deposits at floating interest rates. Exposure to interest rate risk arises on the consolidated entity's cash and cash equivalents.

Interest Rate Sensitivity Analysis
The sensitivity analysis has been determined based on the exposure to interest rates at the reporting date and the stipulated change taking place at the beginning of the financial year and held constant throughout the year. The directors have determined that a 50 basis-point increase or decrease represents management's assessment of the possible changes in interest rates.

At reporting date, if the interest rates had been 50 basis points higher or lower and all other variables were held constant, the consolidated entity's net profit would have been increased by $53,733 (2021: $75,841) and decreased by $53,733 (2021: $75,841) respectively. This is attributable to the consolidated entity's exposure to interest rates on its variable rate deposits.

NOTE 21: FINANCIAL INSTRUMENTS (CONTINUED)

(e) Interest Rate Risk Management (Continued)

The consolidated entity's exposure to interest rate risk at 30 June 2022 is shown in the following table.

	2022 $	2021 $
Financial Assets		
Cash at bank	5,716,641	13,679,923
Short term deposits	30,000	162,178
Loan to European Cannabis Corporation	5,000,000	-
Deferred consideration	-	1,326,018
	10,746,641	15,168,119

(f) Liquidity Risk Management

Ultimate responsibility for liquidity risk management rests with the board of directors. The consolidated entity manages liquidity by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

(g) Maturity Profile of Financial Liabilities

The following tables detail the consolidated entity's remaining contractual maturity for its non-derivative financial liabilities. The financial liabilities represent undiscounted cash flows based on the earliest date on which the consolidated entity can be required to pay.

	Less than 1 year $	1 to 5 years $	5+ years $	Total $
2022				
Trade and other payables	132,085	-	-	132,085
Lease liabilities	39,873	-	-	39,873
	171,958	-	-	171,958
2021				
Trade and other payables	467,095	-	-	467,095
Lease liabilities	45,433	39,871	-	85,304
	512,528	39,871	-	552,399

NOTE 22: FAIR VALUE MEASUREMENT

(a) Fair Value Hierarchy

The following tables detail the consolidated entity'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

Consolidated - 2022	Level 1 $	Level 2 $	Level 3 $	Total $
Assets				
Acquired intellectual property (refer Note 11)	-	-	-	-
Total Assets	-	-	-	-

Consolidated - 2022	Level 1 $	Level 2 $	Level 3 $	Total $
Assets				
Acquired intellectual property (refer Note 11)	-	-	17,037,944	17,037,944
Total Assets	-	-	17,037,944	17,037,944

No assets and liabilities were measured or disclosed under Levels 1, 2 or 3 during the previous financial year.

Assets and liabilities held for sale are measured at fair value on a non-recurring basis.

There were no transfers between levels during the financial year.

The fair value of short-term financial assets and financial liabilities approximate their carrying values because of their short term to maturity.

The consolidated entity currently has no long-term financial assets or borrowings, except lease liabilities.

(b) Valuation Techniques for Fair Value Measurements Categorised within Level 3

The acquired intellectual property detailed in Note 11 was fair-valued at the acquisition date of CannPal on 18 March 2021 and was determined by a discounted cash flow model. This was based on a five-year projection period and extrapolated for a further seven years using a steady rate, together with a terminal value as approved by management. On 30 June 2022, the fair value of the intellectual property was assessed as $Nil and an impairment loss of $15,458,575 was recognised.

Level 3 Assets and Liabilities
Movements in Level 3 assets and liabilities during the current and previous financial year are set out below:

Acquired Intellectual Property	
Consolidated	$
Balance at 1 July 2020	-
Additions via acquisition (refer Note 11)	17,492,283
Amortisation recognised in profit or loss	(454,339)
Balance at 30 June 2021	**17,037,944**
Amortisation recognised in profit or loss	(1,579,369)
Impairment of intangible assets	(15,458,575)
Balance at 30 June 2022	**-**

NOTE 22: FAIR VALUE MEASUREMENT (CONTINUED)

(b) Valuation Techniques for Fair Value Measurements Categorised within Level 3 (Continued)

Level 3 Assets and Liabilities (Continued)
The Level 3 assets and liabilities unobservable inputs are as follows:

	Unobservable Inputs				
Product	*Annual Revenue Growth Rate* (i)	*Average Gross Margin* (i)	*Royalty* (i)	*Discount Factor* (i)	*Upfront Licence*
DermaCann®	3%	65%	N/A	30%	N/A
CPAT-01	30%	N/A	5%	30%	To cover stage 3 clinical trials, regulatory approvals and all past research and development costs plus additional based on intellectual property and goodwill
MicroMAX®	3%	55%	N/A	30%	N/A

(i) The annual revenue growth, average gross margin and royalty factors for DermaCann®, CPAT-01 and MicroMAX® are estimated based on market information for similar types of companies with similar products and in similar industries.

(ii) The discount rates for DermaCann®, CPAT-01 and MicroMAX® are determined using a capital asset pricing model to calculate a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the assets.

NOTE 23: COMMITMENTS, CONTINGENT ASSETS AND CONTINGENT LIABILITIES

(i) Commitments

Commitment under Neuvis Manufacturing Development Agreement

	2022 $	**2021 $**
Committed at the reporting date		
Within one year	42,544	-
Between one and five years	-	-
Total commitment	42,544	-
Less: Future finance charges	-	-
Net commitment recognised	42,544	-

On 10 November 2021, the Group entered into an agreement with Ausphex Pty Ltd ("Ausphex") for the process development for the Group's Neuvis brand at the Ausphex's facility. The commitment totalled $195,000, of which $152,456 was paid during the year ended 30 June 2022. The remaining commitment of $42,544 is to be paid in equal monthly payments of $10,636 per month. The Group has no other material capital or other commitments other than as listed above

NOTE 23: COMMITMENTS, CONTINGENT ASSETS AND CONTINGENT LIABILITIES (continued)

(ii) 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 due from Telor. (refer to note 13).

Other than disclosed above, there were no commitments, contingent assets or contingent liabilities as at 30 June 2022 and as at 30 June 2021.

NOTE 24: AUDITOR REMUNERATION

The auditor of the consolidated entity is PKF Perth.	**2022** **$**	**2021** **$**
Fees paid or payable to PKF Perth:		
Audit or review of the financial report	95,225	82,500
Taxation services	24,000	5,000
Fees paid or payable to other audit firms:		
Audit or review of the financial report	21,310	6,359
	140,535	93,859

NOTE 25: PARENT ENTITY DISCLOSURES

AusCann Group Holdings Ltd ("AusCann") is the legal parent entity.	2022 $	2021 $
Current assets	6,109,886	27,070,626
Total Assets	**18,163,660**	**45,824,912**
Current liabilities	(9,204)	(9,204)
Total Liabilities	**(9,204)**	**(9,204)**
Issued capital	193,554,090	193,554,090
Share-based payment reserve	127,989	786,388
Accumulated losses	(175,527,623)	(148,524,770)
Total equity	18,154,456	45,815,708
Profit (Loss) of the parent entity	(27,002,853)	(8,911,966)
Total comprehensive profit (loss) of the parent entity	(27,002,853)	(8,911,966)

Legal Subsidiaries	**Country of Incorporation**	**Percentage Interest 2022 %**	**Percentage Interest 2021 %**	**Principal Activities**
AusCann Operations Pty Ltd (formerly AusCann Group Holdings Ltd)	Australia	100%	100%	Medicinal cannabis research and development
CannPal Animal Therapeutics Limited ("CannPal")	Australia	100%	100%	Research and development of animal health products

AusCann Group Holdings Ltd (formerly TW Holdings Limited) acquired AusCann Operations Pty Ltd in a reverse acquisition on 19 January 2017.

CannPal was acquired on 18 March 2021 via a scheme of arrangement ("Scheme") whereby CannPal shareholders received 1.3 fully paid ordinary shares in AusCann for every 1 fully paid ordinary share held in CannPal.

Guarantees Entered into by the Parent Entity in Relation to the Debts of Its Subsidiaries
The parent entity has not issued any guarantees in respect of debts of its subsidiaries.

Contingent Liabilities
The parent entity had no contingent liabilities as at 30 June 2022 and 30 June 2021.

Capital Commitments - Property, Plant and Equipment
The parent entity had no capital commitments for property, plant and equipment as at 30 June 2022 and as at 30 June 2021.

Significant Accounting Policies
The accounting policies of the parent entity are consistent with those of the consolidated entity, as disclosed in Note 1, except that investments in subsidiaries are accounted for at cost, less any impairment, in the parent entity.

NOTE 26: EVENTS SUBSEQUENT TO REPORTING DATE

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

On 31 August 2022, the Company requested suspension from trading in the Australian Securities Exchange (ASX) pending the release of an announcement regarding a proposed material acquisition. ASX has exercised its discretion under Listing Rule 11.1.2 to require the Proposed Acquisition to be conditional on approval by the Company's ordinary security holders and under Listing Rule 11.1.3 to require the Company to recomply with Chapters 1 and 2 of the Listing Rules. It is expected that the Company's securities will remain suspended until the Company has recompiled with Chapters 1 and 2 of the Listing Rules. As at the report date, the Company has not yet complied with Chapters 1 and 2 of the Listing Rules.

On 9 September 2022 the Company and EuroCann agreed to increase its existing loan facility provided by the Company under the Secured Loan Agreement by an additional A$3.75 million.

On 9 September 2022, the Company announced its wholly-owned subsidiary, AusCann Operations Pty Ltd (AusCann Ops) has entered into a conditional contract for the sale of the property held by AusCann Ops at 11 Excellence Drive, Wangara WA 6065 for $7,000,000.

Auscann Chief Executive Officer Mr Layton Mills tendered his resignation on 13 September 2022. Mr Mills will continue to work in the company during his 6-month resignation period.

Other than as identified above, no events occurring subsequent to the end of financial year have significantly affected, or may significantly affect, the operations of the consolidated entity in subsequent financial years.

DIRECTORS' DECLARATION

The Directors of the consolidated entity declare that:

1. the financial statements, notes and additional disclosures included in the Directors' report designated as audited, of the consolidated entity are in accordance with the *Corporations Act 2001*, including:

   (a) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and

   (b) giving a true and fair view of the Company's and consolidated entity's financial position as at 30 June 2022 and of their performance for the year ended on that date.

2. The financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in Note 1 to the financial report.

3. In the Directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

4. This declaration has been made after receiving the declarations required to be made to the Directors in accordance with section 295A of the *Corporations Act 2001* for the financial year ended to 30 June 2022.

This declaration is made in accordance with a resolution of the Board of Directors:

T. McGrouther

Tod McGrouther
Chairman

30 September 2022

Advisory • Audit
Business Solutions

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF

AUSCANN GROUP HOLDINGS LTD

Report on the Financial Report

Qualified Opinion

We have audited the accompanying financial report of AusCann Group Holdings Ltd (the Company), which comprises the consolidated statement of financial position as at 30 June 2022, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the company and the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion section of our report the accompanying financial report of Auscann Group Holdings Ltd is in accordance with the Corporations Act 2001 including:

i) Giving a true and fair view of the consolidated entity's financial position as at 30 June 2022 and of its performance for the year ended on that date; and

ii) Complying with Australian Accounting Standards and the Corporations Regulations 2001.

Basis for Qualified Opinion

At reporting date, the Company has recognised a financial asset totalling $5,000,000 in the statement of financial position, divided into current and non-current balances as detailed in Note 13 of the financial report. This amount was advanced to European Cannabis Corporation and specific details in relation to the loan are provided in Note 13(ii) of the financial report. A limitation of scope exists because we were unable to confirm the recoverability of the financial asset in full or partially or determine any adjustments that may have been required to this amount.

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Report section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Material Uncertainty Related to Going Concern

We draw attention to note 1 to the financial report, which indicates the consolidated entity incurred an operating loss from continuing operations of $24,942,353 (2021: $10,575,645) and had net cash outflows from operating activities of $2,831,014 (2021: $6,931,938) for the year ended 30 June 2022. These conditions along with other matters detailed in note 1, indicate the existence of a material uncertainty that may cast significant doubt about the Company and consolidated entity's ability to continue as a going concern and therefore, the Company and consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business.

The financial report of the consolidated entity does not include any adjustments in relation to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the company and consolidated entity not continue as a going concern.

Independence

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate audit opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

1. Impairment of non-financial assets

Why significant

As at 30 June 2022, the impairment of the following non-financial assets was recognised in the consolidated statement of profit and loss and other comprehensive income:

Intangible assets:	$15,458,675
Investment properties:	$3,854,973
Property, plant and equipment:	$759,067

These have been disclosed in Note 11, 9 and 10 respectively in the financial report.

Under Australian Accounting Standard AASB 136 Impairment of Assets, assertions of existence and valuation were the key matters addressed during the audit.

The consolidated entity's accounting policy in respect of impairment of non-financial assets is outlined in Note 1(o) and note 1(z) addresses key assumptions and estimates.

The impairment indicators were that:

- The consolidated entity has not yet completed its research and development programmes necessary to commercialise the intangible assets and has not secured funding in this regard.
- Independent valuation performed on the investment property.

This was considered to be a key audit matter due to the significance of the non-financial assets, and the judgements and estimates incorporated into valuing the non-financial assets.

How our audit addressed the key audit matter

Our work included, but was not limited to, the following procedures:

- Ascertaining whether the company has sufficient and appropriate processes for assessing any impairment of non-financial assets
- Review of internal management's valuations of the intangible assets and independent valuation of the consolidated entity's investment property issued, including:
  - assessing the appropriateness of the valuation method used; and
  - assessing the reasonableness of the assumptions and inputs used within the valuation model
- Discussing impairment indicators with management and the need for impairment testing;
- Assessment of the allocation and recognition of the impairment charges; and
- Assessing the appropriateness of the related disclosures in the financial report.

2. Recoverability of financial assets

Why significant

During the financial year, the consolidated entity advanced $5,000,000 to European Cannabis Corporation Ltd ("ECC") for the purposes of capital expenditure as disclosed in Note 13 (ii).

Significant judgement is required in assessing the expected credit losses of this financial asset.

This was considered a key audit matter due to the judgements involved in the application of the requirements of AASB 9, including the recoverability of financial assets.

The consolidated entity's accounting policy in respect of impairment of financial assets is outlined in Note 1(n) and note 1(z) addresses key assumptions and estimates.

How our audit addressed the key audit matter

Our work included, but was not limited to, the following procedures:

- Reviewing the terms and conditions of the loan;
- Reviewing the latest financial statements of the lender to assess the recoverability of the loan;
- Discussing the requirements with management to obtain further information to confirm the recoverability of the loan; and
- Assessing the appropriateness of the disclosures in relation to the financial assets.

3. Liquidity and funding

Why significant

The consolidated entity generates minimal revenue and is reliant on funding from other sources such as asset divestment. During the year, the consolidated entity incurred an operating loss from continuing operations of $24,942,353 (2021: $10,575,645) and had net cash outflows from operating activities of $2,831,014 (2021: $6,931,938). Therefore, the consolidated entity's funding is considered an event or condition that may cast doubt on the entity's ability to continue as a going concern.

Note 1 disclosed reasons why the Directors believe that the financial statements can be prepared on a going concern basis.

The going concern was determined a key audit matter due to:

- the judgement involved in determining the consolidated entity's forecast cash flows from operations, and
- the significant audit effort required to test the appropriateness of the going concern.

How our audit addressed the key audit matter

In assessing this key audit matter our work included, but was not limited to, the following procedures:

- evaluating the consolidated entity's latest cash flow forecast for a period that is not less than 12 months beyond the date of the financial statements being approved, including challenging the reasonableness of key assumptions used by management of the consolidated entity in their cash flow forecast;
- assessing subsequent events for evidence of further fund raising and strategy to support management's position;
- assessing the adequacy of the disclosures made by management in the consolidated financial statements;

Other Information

Those charged with governance are responsible for the other information. The other information comprises the information included in the consolidated entity's annual report for the year ended 30 June 2022, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon, with the exception of the Remuneration Report.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors' for the Financial Report

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

In preparing the financial report, the Directors are responsible for assessing the consolidated entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the consolidated entity or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the consolidated entity's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the consolidated entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the consolidated entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the consolidated entity to express an opinion on the group financial report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Remuneration Report

Opinion

We have audited the Remuneration Report included in the Directors' Report for the year ended 30 June 2021.

In our opinion, the Remuneration Report of AusCann Group Holdings Limited for the year ended 30 June 2021 complies with section 300A of the Corporations Act 2001.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

PKF Perth

PKF PERTH

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SIMON FERMANIS
AUDIT PARTNER
30 SEPTEMBER 2022
WEST PERTH
WESTERN AUSTRALIA