

AusCann

ABN 72 008 095 207

**Appendix 4D and
Half-Year Financial Report
31 December 2019**

Appendix 4D

AusCann Group Holdings Limited provides the following information under listing rule 4.2A:

Details of the reporting period and the previous corresponding period

- Reporting period – half-year ended 31 December 2019
- Previous corresponding period – half-year ended 31 December 2018

Results for announcement to the market

		%		\$A
Revenues from ordinary activities	<i>Down</i>	45%	<i>to</i>	256,953
Loss from ordinary activities after tax attributable to members	<i>Down</i>	24%	<i>to</i>	3,422,295
Net loss from the period attributable to members	<i>Down</i>	24%	<i>to</i>	3,422,295
Final and interim dividends		N/A		
Record date for determining entitlements to dividends		N/A		

	Reporting period	Previous corresponding period
Net tangible asset backing per ordinary share	12.067 cents	13.134 cents

Details of entities over which control has been gained or lost

There have been no changes in control over entities in the half-year ended 31 December 2019.

Details of dividends or distribution payments

No dividends or distributions are payable.

Details of dividend or distribution reinvestment plans

There is no dividend or distribution reinvestment program in operation.

Details of associates and joint venture entities

The Company has a 50% interest in DayaCann, which is a for-profit joint venture established to grow medicinal cannabis in Chile.

Foreign entities to disclose which accounting standards are used in compiling the report

N/A

Details of any audit dispute or qualification

None

Financial report

This half-yearly reporting information should be read in conjunction with the most recent annual financial report of the Company.

AUSCANN GROUP HOLDINGS LTD

ABN 72 008 095 207

**HALF-YEAR REPORT
FOR THE PERIOD ENDED
31 DECEMBER 2019**

AusCann

AUSCANN GROUP HOLDINGS LTD

ABN 72 008 095 207

TABLE OF CONTENTS

DIRECTORS' REPORT	3
AUDITOR'S INDEPENDENCE DECLARATION	6
CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME	7
CONSOLIDATED STATEMENT OF FINANCIAL POSITION	8
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	9
CONSOLIDATED STATEMENT OF CASH FLOWS	10
NOTES TO THE FINANCIAL STATEMENTS	11
DIRECTORS' DECLARATION	18
INDEPENDENT AUDITOR'S REVIEW REPORT	19

COMPANY INFORMATION

DIRECTORS

Max Johnston (Appointed 20 December 2019)
Bruce McHarrie
Dr Marcel Bonn-Miller (appointed 5 September 2019)
Chris Mews (appointed 1 December 2019)
Krista Bates (appointed 20 December 2019)
Mal Washer (resigned 28 October 2019)
Cheryl Edwardes (resigned 19 January 2020)
Paul MacLeman (resigned 4 November 2019)
Bruce Linton (resigned 5 September 2019)
David Pryce - alternate for Bruce Linton (resigned 5 September 2019)

COMPANY SECRETARY

Ms Susan Hunter
Mr Quentin Megson

REGISTERED OFFICE

Suite 8, Level 2 Shenton House
57 Shenton Ave
Joondalup WA 6027

WEBSITE

www.auscann.com.au

CORPORATE GOVERNANCE

The Company's corporate governance policies can be accessed at <http://www.auscann.com.au/investor-centre/corporate-governance.html>.

AUDITORS

PKF Perth
Level 4
35 Havelock Street
West Perth WA 6005

SHARE REGISTRY

Computershare Investor Services Pty Ltd
Level 11
172 St Georges Terrace
Perth WA 6000

STOCK EXCHANGE

Australian Securities Exchange Ltd

ASX CODE

AC8

This interim financial report does not include all the notes normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the Annual Report for the year ended 30 June 2019 and any public announcements made by the Company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

AUSCANN GROUP HOLDINGS LTD

ABN 72 008 095 207

DIRECTORS' REPORT FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

The Directors present their report together with the financial statements of AusCann Group Holdings Ltd ("the Company" or "AusCann") and its controlled entity (collectively "the consolidated entity") for the half-year ended 31 December 2019.

Directors

The following persons were directors of the Company during the half-year and until the date of this report, unless otherwise stated:

Max Johnston	Appointed 20 December 2019
Dr Marcel Bonn-Miller	Appointed 5 September 2019
Mr Chris Mews	Appointed 1 December 2019
Mrs Krista Bates	Appointed 20 December 2019
Bruce McHarrie	
Dr Malcolm Washer	Resigned 28 October 2019
Hon. Cheryl Edwardes AM	Resigned 19 January 2020
Bruce Linton	Resigned 5 September 2019
Dr Paul MacLeman	Resigned 4 November 2019
David Pryce	(alternate for Mr Linton) Resigned 5 September 2019

Principal Activities

The Board and Management of AusCann Group Holdings Ltd maintain the belief that patients have a right to high quality, economical and clinically validated cannabinoid-based medicines. Towards this, AusCann's principal activities during the six months to 31 December 2019 included: the development, manufacturing, testing and release of a reliable, stable and standardised cannabinoid-based medicine and preparing for its clinical evaluation and commercialisation stage. The Company is focusing on four key strategic objectives:

- Introduce to market reliable, stable and standardised cannabinoid-based pharmaceutical products,
- Educate a select group of prominent physicians and medical opinion leaders in Australia regarding the unique and stable characteristics of AusCann's cannabinoid-based products,
- Gather detailed, data-driven results from clinical evaluation and physician feedback regarding the health outcomes of AusCann's pharmaceutical treatment,
- Publish these results to build clinical evidence supporting the unique benefits of AusCann's capsules.

Operating results and financial position

The loss of the consolidated entity for the half year was \$3,422,295 (2018: \$4,438,372).

The net assets of the consolidated entity decreased to \$38,257,076 as at 31 December 2019 from \$41,668,347 at 30 June 2019.

AusCann's cash balance at the end of the half year is circa \$26m. The Company remains well funded to reach its key milestones and will focus its capital on its core R&D program including clinical evaluation, product manufacturing and commercialisation.

Review of operations

AusCann achieved a major milestone in the December 2019 half year. finalising the successful development, manufacturing and testing of its proprietary cannabinoid-based hard-shell capsules. The testing of the capsules was completed according to standardised validated protocols used across the pharmaceutical industry to ensure product quality, dose reliability and consistent performance through the shelf life of the product. The testing results of the capsules validates AusCann as a commercial producer of reliable, stable and standardised pharmaceutical products.

AUSCANN GROUP HOLDINGS LTD

ABN 72 008 095 207

DIRECTORS' REPORT FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

During the period, AusCann completed the construction stage of its product development facility based in Perth, Western Australia. The site construction was completed on time and on budget with \$4.5m spent to date with additional capital expenditure scheduled for R&D equipment (within the original \$6m budget the Company announced on 25 January 2019). The building will provide AusCann with a state of the art R&D facility.

AusCann also fortified its supply chain by signing two key contractual agreements. The first was a raw material supply agreement with Tasmanian Alkaloids (TasAlk) for the supply of high-quality, cost-effective raw material for AusCann's cannabinoid-based medicines. The second is a supply agreement with Aspen Pharmacare to provide packaging services. Both Tasmanian Alkaloids and Aspen Pharmacare strengthen AusCann's supply chain with GMP-certified, high-quality and cost-competitive service providers.

Board Renewal Process Completed

On 5 September 2019, leading cannabinoid expert, Dr Marcel Bonn-Miller was appointed to AusCann's Board as a Non-Executive Director. Dr. Bonn-Miller replaced Mr Bruce Linton who resigned from the AusCann board shortly after ceasing his role as CEO of Canopy Growth Corporation.

As AusCann approached the next stage of its growth and development, it underwent a comprehensive Board renewal process.

AusCann's former Chairman Dr Mal Washer, Independent Non-Executive Director the Hon. Cheryl Edwardes and Executive Director Dr Paul MacLeman all retired from the Board.

Mr Chris Mews was appointed as major shareholder, Merchants Board nominee on 1 December 2019 and Ms Krista Bates was appointed as a Non-Executive Director on 20 December 2019. The Board renewal process was completed in December with the appointment of Mr Max Johnston as a Non-Executive Director of AusCann on 19 December 2019 and Chairman of the Company effective 19 January 2020.

Events subsequent to reporting date

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

AUSCANN GROUP HOLDINGS LTD

ABN 72 008 095 207

DIRECTORS' REPORT FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

Auditor's Independence Declaration

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

This report is made in accordance with a resolution of the directors.

On behalf of the directors



Max Johnston
Chairman

27 February 2020

AUDITOR'S INDEPENDENCE DECLARATION

TO THE DIRECTORS OF AUSCANN GROUP HOLDINGS LIMITED

In relation to our review of the financial report of AusCann Group Holdings Limited for the half year ended 31 December 2019, 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



SHANE CROSS
PARTNER

27 FEBRUARY 2020
WEST PERTH,
WESTERN AUSTRALIA

Level 4, 35 Havelock Street, West Perth, WA 6005
PO Box 609, West Perth, WA 6872
T: +61 8 9426 8999 F: +61 8 9426 8900 www.pkfperth.com.au

PKF Perth is a member firm of the PKF International Limited family of legally independent firms and does not accept any responsibility or liability for the actions or inactions of any individual member or correspondent firm or firms.

Liability limited by a scheme approved under Professional Standards Legislation.

AUSCANN GROUP HOLDINGS LTD

ABN 72 008 095 207

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE HALF-YEAR ENDED 31 DECEMBER 2019**

	Note	2019 \$	2018 \$
Interest revenue		256,953	466,305
Employee benefits expense	3(i)	(1,370,531)	(1,026,978)
Consulting fees	3(ii)	(279,895)	(458,651)
Research & development – direct cost	3(iii)	(710,296)	(765,986)
Joint Venture expenses	3(iv)	(161,389)	(1,479,259)
Corporate/ Administration Expenses		(648,553)	(530,131)
Depreciation expense		(45,593)	(27,107)
Other expenses	3(v)	(462,991)	(616,565)
Total expenses		(3,679,248)	(4,904,677)
Loss before income tax expense		(3,422,295)	(4,438,372)
Income tax expense		-	-
Net loss for the period		(3,422,295)	(4,438,372)
Other comprehensive income, net of tax			
<i>Items that may reclassified subsequently to profit or loss:</i>			
Foreign currency translation		-	(38,211)
Total comprehensive loss for the period		(3,422,295)	(4,476,583)
Earnings per share			
Basic loss per share (cents per share)		(1.08)	(1.45)
Diluted loss per share (cents per share)		(1.08)	(1.45)

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 31 DECEMBER 2019**

	Note	Dec 2019 \$	June 2019 \$
CURRENT ASSETS			
Cash and cash equivalents		26,078,207	35,307,287
Inventories	4	1,186,995	-
Other current assets	5	658,865	367,253
Total Current Assets		27,924,067	35,674,540
NON-CURRENT ASSETS			
Investment in DayaCann	6	-	-
Other non-current assets	7	103,670	-
Property, Plant and equipment	8	11,326,591	7,193,235
Total Non-Current Assets		11,430,261	7,193,235
Total Assets		39,354,328	42,867,775
CURRENT LIABILITIES			
Trade and other payables	9	850,509	1,110,026
Lease liability		38,290	-
Employee entitlements		133,671	89,402
Total Current Liabilities		1,022,470	1,199,428
NON CURRENT LIABILITIES			
Lease liability		74,782	-
Total Non Current Liabilities		74,782	-
Total Liabilities		1,097,252	1,199,428
NET ASSETS		38,257,076	41,668,347
EQUITY			
Issued capital		75,468,632	75,452,467
Reserves		1,240,514	1,237,108
Accumulated losses		(38,452,070)	(35,021,228)
TOTAL EQUITY		38,257,076	41,668,347

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 HALF-YEAR ENDED 31 DECEMBER 2019

	Issued capital \$	Share- based payment reserve \$	Foreign currency translation reserve \$	Accumulated losses \$	Total \$
Balance at 1 July 2018	39,328,101	2,126,571	29,367	(27,372,007)	14,112,032
Loss after income tax for the period	-	-	-	(4,438,372)	(4,438,372)
Other comprehensive income for the period, net of tax	-	-	-	-	-
Foreign currency translation	-	-	(38,211)	-	(38,211)
	-	-	(38,211)	(4,438,372)	(4,476,583)
<i>Transactions with owners in their capacity as owners</i>					
Issue of shares	35,346,550	-	-	-	34,346,550
Capital raising costs	(1,726,118)	-	-	-	(1,726,118)
Exercised options	-	-	-	-	-
Balance at 31 December 2018	72,948,533	2,126,571	(8,844)	(31,810,379)	43,255,881
Balance at 1 July 2019	75,452,467	1,237,108	-	(35,021,228)	41,668,347
Adjustment for change in accounting policy	-	-	-	(8,547)	(8,547)
Balance at 1 July 2019 - restated	75,452,467	1,237,108,	-	(35,029,775)	(41,659,800)
Loss after income tax for the period	-	-	-	(3,422,295)	(3,422,295)
Other comprehensive income for the period, net of tax	-	-	-	-	-
Foreign currency translation	-	-	-	-	-
	-	-	-	(3,422,295)	(3,422,295)
<i>Transactions with owners in their capacity as owners</i>					
Issue of Shares net of costs	10,500	-	-	-	10,500
Issue of options / rights	-	9,071	-	-	9,071
Exercised options	5,665	(5,665)	-	-	-
Balance at 31 December 2019	75,468,632	1,240,514	-	(38,452,070)	38,257,076

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

AUSCANN GROUP HOLDINGS LTD

ABN 72 008 095 207

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2019**

	2019	2018
	\$	\$
CASH FLOW FROM OPERATING ACTIVITIES		
Interest received	283,351	450,725
Payments to suppliers and employees	(5,457,177)	(3,640,974)
Net cash used in operating activities	(5,173,826)	(3,190,249)
CASH FLOW FROM INVESTING ACTIVITIES		
Loan to DayaCann	(161,389)	(476,375)
Payments for plant and equipment	(75,108)	(1,088,405)
Payments for building improvements	(3,808,239)	-
Net cash used in investing activities	(4,044,736)	(1,564,780)
CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from Issue of Shares	10,500	35,346,550
Capital Raising Costs	-	(1,726,118)
Repayment of lease liabilities	(21,018)	-
Net cash flows from financing activities	(10,318)	33,620,432
Net increase / decrease in cash and cash equivalents	(9,229,080)	28,865,403
Cash and cash equivalents at the beginning of the period	35,307,287	12,878,252
Cash and cash equivalents at the end of the period	26,078,307	41,743,655

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

AUSCANN GROUP HOLDINGS LTD

ABN 72 008 095 207

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES

These financial statements and notes represent those of AusCann Group Holdings Ltd (“the Company”) and its controlled entity (collectively “the consolidated entity”) for the half-year ended 31 December 2019.

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 27 February 2020.

(a) Basis of preparation

The half-year financial report is a general-purpose financial report prepared in accordance with the Corporations Act 2001 and AASB 134 *Interim Financial Reporting*. The half-year report does not include notes of the type normally included in an annual financial report and should be read in conjunction with the most recent annual financial report.

Accounting Policies

The accounting policies applied in the preparation of the half-year financial statements are consistent with those applied in the June 2019 annual consolidated financial statements, except for the adoption of new standards and interpretations effective 1 July 2019.

New or amended Accounting Standards and Interpretations adopted

The consolidated entity has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

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

(b) New standards adopted as at 1 July 2019

The following Accounting Standards and Interpretations are most relevant to the consolidated entity:

AASB 16 Leases

The consolidated entity has adopted AASB 16 from 1 January 2019. The standard replaces AASB 117 'Leases' and for lessees eliminates the classifications of operating leases and finance leases. Except for short-term leases and leases of low-value assets, right-of-use assets and corresponding lease liabilities are recognised in the statement of financial position. Straight-line operating lease expense recognition is replaced with a depreciation charge for the right-of-use assets (included in operating costs) and an interest expense on the recognised lease liabilities (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117. However, EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results improve as the operating expense is now replaced by interest expense and depreciation in profit or loss. For classification within the statement of cash flows, the interest portion is disclosed in operating activities and the principal portion of the lease payments are separately disclosed in financing activities. For lessor accounting, the standard does not substantially change how a lessor accounts for leases.

AUSCANN GROUP HOLDINGS LTD

ABN 72 008 095 207

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

Impact of adoption

AASB 16 was adopted using the modified retrospective approach and as such the comparatives have not been restated. The impact of adoption on opening retained profits as at 1 July 2019 was as follows:

	1 July 2019
	\$
Operating lease commitments as at 1 July 2019 (AASB 117)	227,800
Operating lease commitments discount based on the weighted average incremental borrowing rate of 5% (AASB 16)	(13,844)
Short-term leases not recognised as a right-of-use asset (AASB 16)	(25,464)
Accumulated depreciation as at 1 July 2019 (AASB 16)	<u>(65,972)</u>
Right-of-use assets (AASB 16)	122,520
Lease liabilities - current (AASB 16)	(36,747)
Lease liabilities - non-current (AASB 16)	(94,319)
Tax effect on the above adjustments	<u>-</u>
Reduction in opening retained profits as at 1 July 2019	<u><u>(8,547)</u></u>

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.

Lease liabilities

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.

AUSCANN GROUP HOLDINGS LTD

ABN 72 008 095 207

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

Other pronouncements

Other accounting pronouncements which have become effective from 1 July 2019 and have therefore been adopted do not have a significant impact on the Group's financial results or position.

(c) Significant accounting policies

The interim Financial Statements have been prepared in accordance with the accounting policies adopted in the Groups most recent Annual Report for the year ended 30 June 2019, except for the effects of applying AASB 16 and adoption of standard for inventory.

Leases

As described in Note 1b, the Group has applied AASB 16 using the modified retrospective approach and therefore comparative information has not been reinstated. This means comparative information is still reported under AASB 117 and interpretation.

Inventories

Inventories are valued at the lower of cost and net realisable value. Costs incurred in bringing each product to its present location and condition are accounted for at purchase cost on a first-in, first-out basis. Assembly costs as invoiced by a third party are factored into the cost of finished goods. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

NOTE 2: SEGMENT DISCLOSURES

At this stage of its development, the consolidated entity operates in one business segment, being the research and development of medicinal cannabis.

The consolidated entity has established activities in more than one geographical area, however those activities support the research and development conducted by the consolidated entity and are currently not considered material for the purposes of segment reporting.

The internal management reports that are reviewed by the Board of Directors, who are identified as the chief operating decision makers, are those of the consolidated entity as a whole.

AUSCANN GROUP HOLDINGS LTD

ABN 72 008 095 207

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2019****NOTE 3: OTHER INCOME & EXPENSES**

	Dec 2019	Dec 2018
	\$	\$
(i) Employee Benefits		
Employee Benefits expense	1,361,460	1,026,978
Share based payment expense-employees	9,071	-
Total	<u>1,370,531</u>	<u>1,026,978</u>
(ii) Consulting fees		
Consulting fees -directors	120,000	
Consulting fees - other	159,895	458,651
Total	<u>279,895</u>	<u>458,651</u>
(iii) Research & development -direct costs		
Raw materials	19,542	-
Contract manufacturing R&D	320,775	-
Consultants – R&D	211,072	765,986
Analytics	152,346	-
Other	6,591	-
Total	<u>710,296</u>	<u>765,986</u>
(iv) Joint venture expenses		
Share of profit / (loss) of Dayacann	-	260,061
Impairment of investment in Dayacann	-	398,195
Impairment of loan in Dayacann	161,389	821,003
Total	<u>161,389</u>	<u>1,479,259</u>
(v) Other expenses		
Occupancy expenses	22,917	38,492
Legal expenses	63,462	139,344
Travel & Accommodation	78,083	217,965
Licenses & Permits	48,456	140
Marketing	39,197	9,045
Insurance	66,617	42,593
Foreign exchange losses (gains)	27,461	(15,565)
Other	116,798	184,551
Total	<u>462,991</u>	<u>616,565</u>

AUSCANN GROUP HOLDINGS LTD

ABN 72 008 095 207

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2019****NOTE 4: INVENTORIES**

	Dec 2019	June 2019
	\$	\$
Raw materials	664,632	-
Work in progress	522,363	-
	<u>1,186,995</u>	<u>-</u>

NOTE 5: OTHER CURRENT ASSETS

	Dec 2019	June 2019
	\$	\$
Loan to DayaCann	1,508,683	1,347,293
Less: Impairment of Loan	(1,508,683)	(1,347,293)
Accounts Receivable	-	2,638
Short term deposits	135,179	135,179
GST receivable	442,522	91,229
Accrued interest	8,308	34,707
Prepayments	72,856	103,500
	<u>658,865</u>	<u>367,253</u>

NOTE 6: INTEREST IN JOINT VENTURE**Reconciliation of movement**

	Dec 2019	June 2019
	\$	\$
Opening balance	-	696,467
Additions	-	-
Share of (loss)/profit	-	(696,467)
Foreign currency translation	-	-
Impairment in investment	-	-
Closing balance	<u>-</u>	<u>-</u>

The consolidated entity has a 50% interest in DayaCann, which is a for-profit joint venture established to grow medicinal cannabis in Chile. As the entity is a jointly controlled entity it has been treated as a joint venture under AASB11 *Joint Arrangements*, with the consolidated entity's investment in DayaCann accounted for using the equity method in the consolidated financial statements.

The potential for disposal of existing inventory produced by DayaCann continues to be limited due to the restrictions on the ability to export the product out of Chile. The company has elected to fully impair the value of the investment in DayaCann while the recoverability of the existing inventory remains uncertain.

AUSCANN GROUP HOLDINGS LTD

ABN 72 008 095 207

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2019****NOTE 7: OTHER NON-CURRENT ASSETS**

	Dec 2019 \$	June 2019 \$
Right-of-use asset		
Land and buildings – right-of-use	122,520	-
Less: Accumulated depreciation	(18,850)	-
	<u>103,670</u>	<u>-</u>

The Company leases land and buildings for its office under a five-year agreement. On renewal, the terms of the lease are renegotiated. The Company 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 8: PROPERTY, PLANT AND EQUIPMENT

Land & Buildings	5,541,328	5,541,328
Building Improvements	4,558,476	473,484
Less: Amortisation	-	-
	<u>10,099,804</u>	<u>6,014,812</u>
Computer Equipment – at cost	38,467	38,467
Less: Accumulated depreciation	(21,868)	(18,130)
	<u>16,599</u>	<u>20,337</u>
Furniture and Fittings – at cost	91,642	91,642
Less: Accumulated depreciation	(52,057)	(44,088)
	<u>39,585</u>	<u>47,554</u>
Plant & equipment– at cost	1,210,895	1,135,787
Less: Accumulated depreciation	(40,292)	(25,255)
	<u>1,170,603</u>	<u>1,110,532</u>
Total	<u><u>11,326,591</u></u>	<u><u>7,193,235</u></u>

NOTE 9: TRADE AND OTHER PAYABLES

Trade payables and accrued expenses	741,479	1,026,308
PAYG and superannuation payable	109,030	83,718
	<u>850,509</u>	<u>1,110,026</u>

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

AUSCANN GROUP HOLDINGS LTD

ABN 72 008 095 207

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

NOTE 10: SHARE-BASED PAYMENTS

Share-based payments during the period ended 31 December 2019

(a) **Performance rights issued to employees**

1,527,200 performance rights were issued to employees on 9 December 2019. The fair value of each option was calculated at 13.02 cents per right using a binomial model and the following assumptions:

Vesting date	20 December 2022
Spot price	\$0.19
Vesting schedule – below 50 th percentile	0%
Vesting schedule – above 50 th but below 100 th percentile	Pro-rata
Vesting schedule – at or above 100 th percentile	100%
Expected volatility - company	82.8%
Expected volatility – peer group	47.1% to 209.3%
Dividend yield	Nil
Risk-free rate	0.71%

The expense arising from share-based payments was \$9,071.

Share-based payments during the year ended 30 June 2019

(a) **Performance rights issued to employees**

109,200 performance rights were issued to employees on 29 March 2019. The fair value of each option was calculated at 7.95 cents per right using a binomial model and the following assumptions:

Vesting date	30 November 2021
Spot price	\$0.36
Vesting schedule – below 50 th percentile	0%
Vesting schedule – above 50 th but below 100 th percentile	Pro-rata
Vesting schedule – at or above 100 th percentile	100%
Expected volatility - company	90.8%
Expected volatility – peer group	50.8% to 218.2%
Dividend yield	Nil
Risk-free rate	1.40%

The expense arising from share-based payments was \$nil for the period ended 31 December 2018.

NOTE 11: COMMITMENTS AND CONTINGENCIES

The company has capital commitments of \$691,813 (2018: \$nil) at 31 December 2019 in relation to the agreed building improvement works during the period.

NOTE 12: EVENTS SUBSEQUENT TO REPORTING DATE

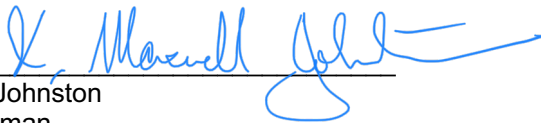
There were no events occurring subsequent to the end of the financial year that have significantly affected or may affect the operations of the consolidated entity in subsequent financial years.

DIRECTORS' DECLARATION

The Directors of the consolidated entity declare that:

1. The financial statements and notes are in accordance with the Corporations Act 2001, including:
 - (a) giving a true and fair view of the financial position of the consolidated entity as at 31 December 2019 and of its performance for the half-year ended on that date; and
 - (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*; and
2. There are reasonable grounds to believe that the consolidated entity will be able to pay its debts as and when they become due and payable.

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



Max Johnston
Chairman

27 February 2020

Level 4, 35 Havelock Street, West Perth, WA 6005
PO Box 609, West Perth, WA 6872
T: +61 8 9426 8999 F: +61 8 9426 8900 www.pkfperth.com.au

PKF Perth is a member firm of the PKF International Limited family of legally independent firms and does not accept any responsibility or liability for the actions or inactions of any individual member or correspondent firm or firms.

Liability limited by a scheme approved under Professional Standards Legislation.

INDEPENDENT AUDITOR'S REVIEW REPORT TO THE MEMBERS OF AUSCANN GROUP HOLDINGS LIMITED

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of AusCann Group Holdings Limited (the "Company") and controlled entities (the "consolidated entity") which comprises the consolidated statement of financial position as at 31 December 2019, 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 half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information and the Directors' Declaration of the Company and the entities it controlled at 31 December 2019, or during the half year.

Directors' Responsibility for the Half-Year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the Corporations Act 2001 including: giving a true and fair view of the Company's financial position as at 31 December 2019 and its performance for the half year ended on that date; and complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporation Regulations 2001. As the auditor of AusCann Group Holdings Limited during the half year, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the Corporations Act 2001. In accordance with the Corporations Act 2001, we have given the Directors' of the Company a written Auditor's Independence Declaration.

Level 4, 35 Havelock Street, West Perth, WA 6005
PO Box 609, West Perth, WA 6872
T: +61 8 9426 8999 F: +61 8 9426 8900 www.pkfperth.com.au

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of AusCann Group Holdings Limited is not in accordance with the Corporations Act 2001 including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2019 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001.



PKF PERTH



SHANE CROSS
PARTNER

27 FEBRUARY 2020
WEST PERTH,
WESTERN AUSTRALIA