

ANNUAL
REPORT
2024

CANN
GROUP LIMITED





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LETTER FROM THE CHAIRMAN & CHIEF EXECUTIVE OFFICER



Dr Julian Chick
Chairman



Jenni Pilcher
Chief Executive Officer
& Managing Director

Dear Shareholders,

The 2024 financial year has been marked by a significant transformation, characterised by a contrasting two halves. In the first half of the year, the primary focus was on ramping up production capabilities at Mildura. By the second quarter, the Company achieved a milestone of continuous month-on-month production, with approximately 2 tonne of dried flower produced for the quarter, translating to an annualised production of around 8 tonnes.

This production boost translated into robust revenue growth for the first half-year, which surged by 46% compared to the same period last financial year (FY2023). This increase was largely driven by the expansion of white label contracts for dried flower products. Additionally, the first half saw the successful re-launch of the Company's proprietary brand, Botanitech, into the market.

However, this rapid expansion required significant investment, particularly in contract labour and facility running costs, which was largely financed through increased borrowings from the NAB. This elevated debt profile ultimately led to the Company breaching its gearing ratio covenant for the December and March quarters. This, together with the resulting higher cost base, contributed to the Company's auditors issuing a disclaimer on the Company's half-year results. This disclaimer triggered the suspension of the company's shares from quotation on the ASX on 1 March 2024.

During the subsequent 3-month period whilst in suspension, the Company faced many challenges, including the loss of sales momentum and increased caution from suppliers regarding credit terms. The focus shifted to securing new financing, managing supplier relationships, restructuring the cost-base, and

driving efficiency improvements to achieve a leaner operation.

In the fourth quarter, the Company successfully secured new debt financing, realised proceeds from asset sales, and re-released its half year results without an auditor's disclaimer. The Company was then able to demonstrate to the ASX that it could meet the required listing criteria, leading to the resumption of share trading on 4 June.

Despite these challenges, the Company achieved a 12% increase in revenue and a notable improvement (i.e. reduction of loss) in EBITDA of 24.1% compared to FY2023.

In response to the challenges faced, the Company has reset its strategy with a firm focus on achieving profitability. This will be pursued through three clearly defined steps:

1. Production goals: Production of at least 6-7 tonne per annum of dried A-grade flower in

“In recent months, the Company has right-sized its operations and achieved significant efficiencies and cost savings. We are now poised to accelerate production scale via automation and process improvement and maximise sales via our Botanitech brand, with the product range set to expand next month. In conjunction with the production and commercial efforts, we will be firmly focused on ensuring the Company has the right financial foundation to position it for success in FY2025 and beyond.”

FY2025, increasing to 10 tonne. Further expansion beyond this is possible with additional investment.

2. Brand development:

Drive demand for Cann’s Botanitech brand sales via product range expansion and investment into business development executives and account managers.

3. Cost management:

Maintain tight cost control and robust financial oversight.

In addition to the above, the Company will continue to evaluate its funding requirements and pursue debt restructuring options. We firmly believe the above strategy is readily able to be met, and a worthwhile investment, given the increasing size of the medicinal cannabis market, both here in Australia and internationally. Medicinal cannabis is increasingly being used for treating a wide range of conditions such as chronic pain, epilepsy (particularly in paediatric cases), multiple sclerosis, nausea related to chemotherapy, anxiety, and sleep disorders. Innovation in product development (such as edibles) is helping to ensure medicinal cannabis is more accessible and

well-suited to individual needs. In addition, patients are switching from non-medicinal to medicinal products for better quality and consistency. Here at Cann, we believe we are well positioned to take advantage of such a market. We would like to take this opportunity to express our gratitude firstly to our Cann employees. Your patience, dedication and understanding this past year has been invaluable to the Company. And to our shareholders and stakeholders, thank you for your unwavering support during what has been a challenging year. We look forward to delivering on our strategy and reporting back to you through-out FY2025.



Dr Julian Chick
Chairman



Jenni Pilcher
Chief Executive Officer &
Managing Director



FY2024 HIGHLIGHTS



REVENUE

FY2024 HIGHLIGHTS

\$15.73M

↑ 11.6% YOY

PRODUCTION

4.4 TONNES

↑ 100% YOY

EBITDA LOSS

(\$13.2M)

24.1% **IMPROVEMENT** YOY

OPERATING EXPENSE RATIO

128%

10% POINTS **IMPROVEMENT** YOY



DIRECTORS' REPORT

30 JUNE 2024

The Directors present their report, together with the financial statements, on the consolidated entity (Group or "Cann") consisting of Cann Group Limited (Company or parent entity) and the entities it controlled at the end of, or during, the year ended 30 June 2024.

Information on Directors

The names and details of the Directors in office during the year and until the date of this report are as follows. Directors have been in office for this entire year unless otherwise stated. Shareholdings are current as at the date of this report.

Name	Dr Julian Chick
Title	Non-executive Chairman
Experience & expertise	Julian has over 25 years of experience in the biotechnology and medical technology sectors, as well as in investment banking. He has worked with both public and private companies, bringing a number of technologies through from discovery to market, as well as experience in capital raisings, company restructuring, licensing, business development and M&A transactions. He has a Bachelor of Science and PhD in Physiology from La Trobe University and Oxford University. Julian has held senior executive roles and directorships at several Australian and international life science companies, both listed and private, including Avexa Ltd (ASX:AVX), Opyl Ltd (ASX:OPL), Admedus Ltd (ASX:AHZ) and LTR Pharma (ASX:LTP).
Tenure	Director since 26 October 2022. Appointed Chair of the Board on 28 August 2023.
Other current directorships	LTR Pharma (ASX:LTP)
Former directorships (last 3 years)	Opyl Ltd (ASX:OPL) (resigned 13 February 2023)
Special responsibilities	Member of Audit and Risk Committee (from 15 December 2022) and Chair of Remuneration and Nomination Committee.
Interests in shares	250,000 fully paid ordinary shares

Name	Jennifer Pilcher
Title	CEO & Managing Director
Qualifications	Chartered Accountant (CA) and Bachelor of Business Studies (Major Accounting)
Experience & expertise	Jenni has many years' senior executive experience for ASX-listed companies in the medical and biotechnology sectors and was most recently Chief Financial Officer (CFO) and Company Secretary of Whispir Ltd (ASX:WSP), a technology company specialising in messaging platform software. She has been CFO and Company Secretary of medical imaging software company Mach7 Technologies Ltd (ASX:M7T), and biotechnology company's Alchemia Limited (ASX:ACL) and Mesoblast Limited (ASX:MSB). She has also held senior finance roles at ASX200 company Spotless Group, Cadbury Schweppes plc, and international pharmaceutical group Medeva plc., based in London, UK. Jenni is a member of Chartered Accountants Australia & New Zealand; a Graduate of the Governance Institute of Australia; and has a Bachelor of Business Studies (majoring in accounting) from Massey University in New Zealand.
Tenure	Director since 8 September 2020. Formally appointed CEO & Managing Director 1 April 2024
Other current directorships	n/a
Former directorships (last 3 years)	n/a
Special responsibilities	Member of Remuneration and Nomination Committee.
Interests in shares	330,500 fully paid ordinary shares

DIRECTORS' REPORT

30 JUNE 2024

Name	Douglas John Rathbone AM
Title	Non-executive Director
Qualifications	FATSE, FI ChemE, ARMIT B Comm, TTC
Experience & expertise	An experienced public company director, he is the former Managing Director and CEO of Nufarm Limited (ASX:NUF) from 21 August 1987 to 4 February 2015. He is Chairman of the Rathbone Wine Group, Director of Cotton Seed Distributors, Go Resources and AgBiTech. He is also a Chairman of Health Food Holdings and Delta Agribusiness Pty Ltd. Doug is an Honorary Life Governor of the Royal Children's Hospital. He is President of My Room Children's Cancer Charity Limited and founder of Children's Cancer Foundation. Doug brings to the board experienced management and corporate governance skills together with a passion to grow the business.
Tenure	Director since 16 March 2015
Other current directorships	n/a
Former directorships (last 3 years)	Leaf Resources Ltd (ASX:LER) (resigned 6 March 2023)
Special responsibilities	Member of Audit and Risk Committee and Remuneration and Nomination Committee.
Interests in shares	3,596,185 fully paid ordinary shares
Interests in options	82,758 unlisted options exercisable at 22 cents on or before 1 February 2025

Name	Robert Barnes
Title	Non-executive Director
Experience & expertise	Robert is an experienced senior executive who has delivered extensive leadership and operational outcomes across a wide variety of healthcare industries, including pharmaceutical, nutraceutical, infant formula, consumer, medical devices, and diagnostics. He has an applied science degree in Medical Science, a MBA, and is a Graduate of the Australian Institute of Company Directors. Having worked both globally and in Australia in leading commercial healthcare organisations, he brings substantial and diverse commercial and scientific understanding to the Company. Robert has held senior executive roles at several pharmaceutical and consumer healthcare entities including Aspen Pharmacare Australia Pty Ltd, Sanofi Australia, and Mayne Group. Mr Barnes has also served on the board of the peak OTC industry body being Consumer Healthcare Products Australia. He has experience in the medicinal cannabis sector, being a former member of the advisory board to Leafcann Group Pty Ltd.
Tenure	Director since 20 September 2022
Other current directorships	n/a
Former directorships (last 3 years)	n/a
Special responsibilities	Chair of Audit and Risk Committee and member of Remuneration and Nomination Committee.
Interests in shares	200,000 fully paid ordinary shares

Allan McCallum AO retired as a director (and Chairman) on 28 August 2023.

Name	Steven Notaro
Title	Company Secretary
Experience & expertise	<p>Steven Notaro is the Head of Legal and Regulatory Affairs, and Company Secretary at Cann Group. He is a qualified lawyer, with a background in contract law, intellectual property, consumer law and corporate law.</p> <p>Steven joined Cann Group in 2014, where he assisted in the early establishment of the business, including the listing of the Company on the ASX and the granting to Cann of the first medicinal cannabis licence issued in Australia under the Narcotic Drugs Act.</p>

Dividends

There were no dividends paid, recommended or declared during the current or previous financial year.

Principal activities

The principal activities of the Group during the year consisted of cultivation of medicinal cannabis for both medicinal and research purposes pursuant to the licences and permits issued to the Group and the development and manufacture (via third party arrangements) of finished product formulations.

Review of operations

Key financial metrics

	30 June 2024	30 June 2023	% change
Revenue from operations	15.37m	13.78m	11.6%
EBITDA (adjusted)	Loss 13.20m	Loss 17.40m	-24.1%
Impairment of property, plant and equipment	20.13m	-	100%
Loss after providing for income tax	51.24m	33.79m	51.6%
Net assets	13.92m	59.26m	-76.5%
Basic and diluted loss per share	11.9 cents	9.1 cents	31.4%
Weighted average number of Shares used to calculate the basic and diluted earnings per share	429,385,901	372,251,723	na

EBITDA and Loss from operations

Earnings before interest, tax, depreciation, and amortisation ("EBITDA") excluding loss of on fair value charges, has improved by \$4.20 million, or 24.1%, over the PCP to -\$13.20 million. This improvement can largely be attributable to a reduction in direct production costs of \$2.92 million (19.3%) as a result of production becoming more efficient as the Mildura facility scales up, and an increase of sales of \$1.59 million (discussed below).

The loss after tax for the year has increased by \$17.45 million, or 51.6%, over the PCP to \$51.26 million. This result has been heavily impacted by a write down of the fair value of the Group's property, plant and equipment at its Mildura facility of \$20.13 million. This adjustment brings the associated property, plant and equipment carrying value to \$76.44 million as at 30 June 2024, which aligns to the "value-in-use" as determined by an external property valuation firm on 24 June 2024.

Sales revenue

Sales revenue increased by \$1.59 million to \$15.37 million for the year ended 30 June 2024 (30 June 2023: \$13.78 million) representing an 11.6% increase to the prior corresponding period ("PCP").

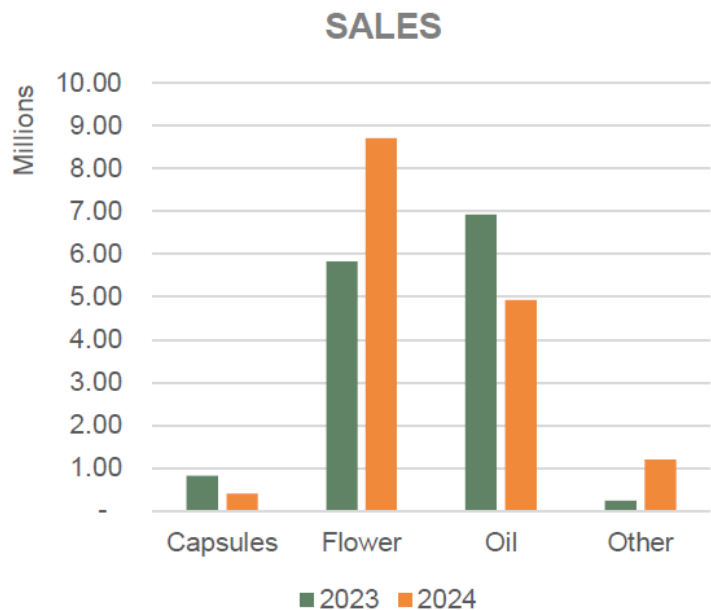
Sales growth is attributable to dried flower sales increasing by 49% over the PCP to \$8.69 million, largely through the Cann's own-brand "Botanitech" sales which have grown 87% over the PCP to \$2.26 million. In addition, bulk dried flower sales contributed \$1.67 million to sales revenue this year (2023: \$0.35 million) reflecting the increase in production over the prior year (discussed below).

DIRECTORS' REPORT

30 JUNE 2024

Oil sales have fallen by 29% over the PCP to \$4.93 million, mostly attributable to white label sales as the market generally was shifting towards dried flower, combined with much cheaper oil products available via imports.

Contract packing services is a new services revenue line for Cann, launched in June 2023, which has contributed \$1.19 million to sales revenue in the current year.



Manufacturing and cultivation

Production output at Mildura for the year ended 30 June 2024 was 4.43 tonnes (30 June 2023: 2.2 tonnes).

The production schedule for the year was closely attuned to demand for dried flower product. Completion of the move to hang drying flower was completed with positive feedback from the market of the improved consistency of trim quality. Whilst hang drying accounts for nearly all drying, tray drying also remains an option for international markets that require it.

Labour costs were reduced significantly in the second half of the financial year with a greater focus on lean manufacturing principles to eliminate waste. A focus on multiskilling the workforce and reducing numbers in middle management were contributors to the reduction.

Close attention was paid to evaluating new cultivars with the desired traits of THC level and terpene profile. Several new cultivars have been identified as commercially viable and now form part of the extended patient offering.

The introduction of fresh genetic stock propagated through tissue culture techniques was introduced. Benefits include improved plant health and vigour as well as a reduction in the viral and bacterial pathogen load on mother plants.

Separating different flower size and packaging it accordingly has enabled the business to provide a range of high-end craft type flower as well as a Value range to meet different price points and patient needs.

The business continues to offer contract packing services for a range of customers. This leverages Mildura's state of the art laboratory facilities and GMP accreditation providing an alternative source of revenue.

Commissioning of new automated jar filling equipment to reduce labour costs further commenced. Greater efficiencies due to labour saving and accuracy of fill are expected to be realised in Q1 2024/25.

Research and development

Cann has continued to identify and develop new cultivars with a pipeline of unique lines progressing through a phased development program that will ultimately allow selection of elite commercially viable lines with top production traits and customer desirables. This year we have evaluated 360 lines from 37 families and selected 31 new lines for further assessment at our Mildura facility. The first of these new, elite lines will be in commercial production in the second half of 2024 with a plan to continue to advance more over the coming 12 months.

A small Phase 1 pharmacokinetic study of oral administration of Cann's CBD formulations showed the maximum concentration (C_{max}) delivered by Cann's Satipharm capsules was around 3 times greater than that of the reference CBD oil, and this was achieved after 1.8 and 2.4 hours respectively – compared to 6.6 hours for the oil. This study will inform decision making by healthcare practitioners and improve treatment options for patients.

Production of THC containing Satipharm capsules progressed with assessment of novel colorants and THC containing resin. The data from these trials has allowed Cann to more precisely target key customer requirements, as well as building a high level of confidence in the formulation of products with multiple actives.

Micro propagated plantlets from tissue culture were successfully transferred to the Mildura facility and developed into healthy, viable motherplants. This development will allow for replacement of motherplants from a sterile source and will also reduce the footprint required to maintain and replenish motherplants.

Funding

Equity and debt funding

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

1. an entitlement offer which provided Eligible Shareholders with the opportunity to subscribe for one (1) new share for every four (4) existing shares held at \$0.12 (12 cents) per share with one (1) free attaching option for every two (2) shares subscribed for and issued, with an exercise price of \$0.22 (22 cents) per share and an exercise period of 18 months.
2. Cann also offered Eligible Shareholders who subscribed for their full entitlement under the Entitlement Offer the opportunity to increase their shareholding in the Company should there be any shortfall under the Entitlement Offer.

On 21 November 2023, the Group announced that it raised A\$2 million via entry into a convertible securities facility (Facility) with Obsidian Global GP, LLC (Obsidian). The funds raised provided working capital to assist the Company in achieving its strategic investment in expanding GMP manufacturing capabilities at Mildura. The Group will have access to further drawdowns of up to A\$13.00 million in total (with no one drawdown being more than A\$3.00 million), subject to agreement between the parties. Under the facility, Cann issued Obsidian with 1,322,200 securities ("Notes") convertible into fully paid ordinary shares (Shares) in the Company in accordance with the terms and conditions of the Facility. As at the date of this report, Obsidian have converted 585,000 Notes into 34.02 million Shares. There is a balance of 737,200 Notes outstanding.

On 7 May 2024 the Group announced it has executed a facility agreement with a prominent Australian private credit fund to provide a secured debt facility of \$5.00 million (Facility). The full \$5 million has been drawn down in one lump sum and funds were received (Principal). The Principal is subject to 15% interest per annum, payable monthly in arrears, and the Facility has a maturity date of 6 May 2025. The Facility is secured over Cann's Mildura property as a second mortgage behind the National Australia Bank (NAB). In addition to the monthly interest, the Facility has an upfront fee of 3% of the Principal, \$65,000 work fee, and a 1% broker fee, together with customary legal costs.

R&D funding

On 17 October 2023, Cann Group received a \$3.43 million R&D tax incentive rebate for the 2023 financial year, related to eligible R&D activities.

DIRECTORS' REPORT

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Sale of assets

On 18 March 2024, the Group announced it had reached terms with Biortica Agrimed Ltd (Biortica) for the sale of a range of equipment surplus to Cann's needs for \$1.70 million (excluding GST). The full amount from this sale was received by 30 June 2024.

On 22 March 2024, the Group announced it had received the final payment of \$1.90 million from SatiVite Pty Ltd for the sale of assets at its formerly owned Southern cultivation and manufacturing facility.

Business risks

Cann Group Limited's operating and financial results and performance are subject to various risks and uncertainties, some of which are beyond the Company's control. Set out below are matters which the Group has assessed as having potential to have material impact on its operating and/or financial results and performance

- **Agricultural risks:** Risks inherent with agricultural businesses apply to Cann's business, including lower than expected yields, disease, mould and insects and other pests. Since commissioning Mildura Cann has focussed on continually improving its cultivation processes to ensure that the Company is able to continually produce high quality flower products to meet the needs of its customers.
- **Production risks:** Cann's ability to produce cannabis and manufacture cannabis products, and to increase its production in the future, may be adversely impacted by a number of production factors, including plant design errors, non-performance by third party contractors, increases in materials or labour costs and/or limits on availability of materials or labour, production performance falling below expected levels of output or efficiency, human error, the agricultural factors described above, contractor or operator errors, breakdowns, aging or failure of equipment or processes, labour disputes, any rise in energy and utilities costs and limits on availability of such utilities.
- **Funding risks:** The failure to raise the necessary funding, whether as debt or equity, could result in the delay or indefinite postponement of Cann's business expansion. There can be no assurance that additional funding or other types of financing will be available if needed or that, if available, the terms of such funding will be available on favourable terms. In addition, debt funding may materially increase Cann's debt levels and gearing. This may increase Cann's funding costs, reduce its financial performance and increase the risk of Cann being in default or being unable to pay its debts when due in the future.
- **R&D funding:** An important source of funding for Cann is the R&D tax refund it receives each year. There can be no assurance that the R&D tax refund scheme will remain in place, or that Cann will continue to be entitled to access it in the future. Therefore, if Cann were to not receive an R&D tax refund, this would negatively impact Cann's financial performance as well as increase its working capital requirements, potentially causing it to seek additional funding.
- **Operating losses risks:** Cann continues to incur operating losses. Cann may not be able to achieve profitability and may continue to incur significant losses in the future. In addition, Cann will increase its operating expenses as it grows its business. If Cann's revenues do not increase to offset these expected increases in expenditures and operating expenses, it will not be profitable. Anticipated or expected sales may not be achieved, and even if achieved, may not result in Cann being profitable. There is no assurance that Cann will be successful in achieving a return on shareholders' investments and the chances of success must be considered in light of the proposed expansion of its operations
- **Regulatory approvals:** Cann's ability to continue its business is dependent on holding certain authorisations, licences and permits and adherence to all regulatory requirements related to such activities. Any failure to comply with the conditions of those approvals and licences, or to renew the approvals and licences after their expiry dates, would have a material adverse impact on the financial position, financial performance and/or prospects of Cann.

- **Compliance with licence conditions:** A licence to cultivate, produce and/or manufacture under the *Narcotic Drugs Act 1967* (Cth) is subject to a number of conditions, which if not maintained may result in a suspension or revocation of the licence or permit. Such conditions include ensuring that all staff engaged are suitable, that directors and officers (and the business itself) is a fit-and-proper person and that certain security and reporting measures are maintained. Any failure to maintain these licences would have a material adverse impact on the financial position, financial performance and/or prospects of Cann.
- **Third party manufacture risks:** Cann is currently reliant on a single source of manufacturing to manufacture certain of Cann's products. There are other potential commercial manufacturers that Cann could use to meet its manufacturing requirements. However, if Cann needed to engage a new manufacturer, the process of transitioning to a new manufacturer would likely take several months, so there would be a risk that Cann's manufacturing abilities would be adversely impacted during the transition period, with a negative associated impact on Cann's financial performance.

Significant changes in the state of affairs

Fully paid ordinary shares issued during the year

During the year the Company issued 57.23 million (14.7%) fully paid ordinary shares, as follows:

- 37.14 million on 1 July 2023 pursuant to a non-renounceable rights issue
- 0.52 million on 1 August 2023 to CSIRO for payment of services rendered
- 19.57 million to Obsidian pursuant to a convertible securities agreement announced on 21 November 2023

Funding arrangements during the year

Refer to the Funding section of this report for further details on equity and debt funding sourced, and proceeds received from the sale of assets, during the year.

Bank facilities

For the quarters ending 31 December 2023, and 31 March 2024, the Group was in breach of its gearing ratio covenant with National Australia Bank (NAB). On 6 May 2024, NAB issued a Letter of Waiver confirming that the Group had not complied with the undertaking set out in clause 10.1 of the NAB Facility Agreement which states "10.1: Financial Covenants (specifically Gearing Ratio >50% as at 31 Dec 2023 & as at 31 Mar 2024)" and that NAB would waive their right to any further action for both the historical breach (Gearing Ratio as at 31 Dec 2023) and the current breach (Gearing Ratio as at 31 Mar 2024). On 21 August 2024, NAB confirmed that the Gearing Ratio covenant would be removed as a requirement for the quarters ended 30 June 2024 through to 30 June 2025.

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

On 15 March 2024, the Group executed an extension of its Working Capital Facility expiry date from 30 November 2024 to 31 March 2025. On 21 August 2024, NAB have provided approval to extend this facility to 31 May 2025.

A letter of intent was also received from NAB dated 29 August 2024 confirming that no call will be made on either facility for a period of 13 months to 29 September 2025.

On 7 May 2024, the Group secured a \$5.00 million facility with a private credit lender, refer to the Funding section of this report for further details.

DIRECTORS' REPORT

30 JUNE 2024

ASX suspension

On 1 March 2024, the securities of the Group were suspended from quotation by the ASX pending compliance with Listing Rule 19.11A(b) in relation to the disclaimer conclusion of the independent auditor in its review of the Group's half year financial report for the period ended 31 December 2023. In the months following, the Company raised a further \$5 million in debt, realised proceeds from asset sales, and executed a restructuring to reduce costs – such that it was able to re-release its half year finance report for the period ended 31 December 2023 with an unmodified audit review conclusion on 7 May 2024. Following the lodgement of an auditor-reviewed pro-forma consolidated statement of financial position, and update to its most recent (Q3) quarterly cash flow report, on 3 June, the ASX reinstated the Company's securities to trading from the commencement of trading on 4 June 2024.

Future developments, prospects and business strategies

Other than matters referred to elsewhere in this report and above, further information as to likely developments in the operations of the Group and the expected results of operations have not been included in this report as the Directors believe it would be likely to result in unreasonable prejudice to the Group.

Environmental regulation

The Group's operations comply with all relevant environmental standards and regulations.

Meetings of Directors

The number of meetings of the Company's Board of Directors ('the Board') held during the year ended 30 June 2024, and the number of meetings attended by each Director were:

	Board Meetings		Remuneration and Nomination Committee		Audit and Risk Committee (ARC)	
	Held	Attended	Held	Attended	Held	Attended
Mr Douglas John Rathbone AM	19	18	3	3	5	3*
Ms Jenni Pilcher	19	18	3	3	5	5
Dr Julian Chick	19	19	3	3	5	5
Mr Robert Barnes	19	19	3	3	5	4^
Mr Tony Di Pietro (commenced 15 April 2024)	19	3	3	1	5	1
Mr Allan McCallum AO (resigned 28 August 2023)*	19	3	3	1	5	2
Mr Peter Koetsier (resigned 21 March 2024)	19	14	3	2	5	4
Ms Deborah Ambrosini (resigned 22 December 2023)	19	9	3	2	5	2

*Mr Douglas John Rathbone AM replaced Mr Allan McCallum AO as a member of ARC from 28 August 2023.

^Mr Robert Barnes replaced Ms Jenni Pilcher as Chair of the ARC on 7 May 2024 (he attended certain ARC meetings as an observer before this date).

Remuneration report (audited)

This Remuneration Report outlines the Company's remuneration strategy for the financial year ended 30 June 2024 and provides detailed information on the remuneration outcomes for the year for the Directors, the Chief Executive Officer (CEO) and other Key Management Personnel.

For the purpose of this report, Key Management Personnel are defined as persons having authority and responsibility for planning, directing and controlling the Group's activities, directly or indirectly, and include all Directors of the Company.

The Directors of the Company are pleased to present the Remuneration Report (Report) for the Company and its subsidiaries (Group) for the financial year ended 30 June 2024. This Report forms part of the Directors' Report and has been prepared and audited in accordance with the requirements of the Corporations Act 2001.

Key Management Personnel

The KMP whose remuneration is disclosed in this year's report are:

Non-executive Directors	
Name	Title
A McCallum (retired 28 August 2023)	Chairman
J Chick (appointed 28 August 2023)	Chairman
D Rathbone	Non-executive Director
J Pilcher	Interim CEO & Executive Director (effective 21 March 2024)
R Barnes	CEO & Managing Director (effective 1 April 2024)
	Non-executive Director

Chief Executive Officer (CEO) and Disclosed Executives	
Name	Title
P Koetsier (resigned 21 March 2024)	Chief Executive Officer
D Ambrosini (resigned 22 December 2023)	Chief Financial Officer and Company Secretary
T Di Pietro (appointed 15 April 2024, resigned 14 August 2024)	Chief Financial Officer and Company Secretary

On 21 March 2024, Ms Pilcher transitioned from a non-executive director to interim CEO and Executive Director. To assist with the knowledge transfer to Ms Pilcher, Mr Koetsier continued in his role of outgoing CEO until 7 June 2024.

Principles used to determine the nature and amount of remuneration

Remuneration philosophy

The Remuneration and Nomination Committee is responsible for making recommendations to the Board on remuneration policies and packages applicable to Directors, the CEO and other Key Management Personnel and consists of three of the four members of the Board. The Remuneration and Nomination Committee is subject to the Company's Remuneration Policy, with that policy having the objectives to provide a competitive, bench marked and flexible structure, being tailored to the specific circumstances of the Company and which reflect the person's duties and responsibilities so as to attract, motivate and retain people of the appropriate quality.

The Company's Remuneration Policy is reviewed at least once a year and is subject to amendment to ensure it reflects best market practice.

Remuneration levels are competitively set to attract appropriately qualified and experienced Directors and executives. The Remuneration and Nomination Committee obtains market data on remuneration levels. The remuneration packages of the Chief Executive Officer and Senior Executives may include a short-term incentive component that is based on specific Company goals pertaining to financial and operational performance. The Chief Executive Officer and Senior Executives may also be invited to participate in the Company's Long-term Incentive Plan, the benefits of which are conditional upon the Company achieving certain performance criteria, the details of which are outlined below.

In accordance with the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations, the structure of Non-executive Director remuneration is separate from executive remuneration.

Relationship between the Remuneration Policy and Company performance

Currently, the consolidated entity assesses its performance from achievement of operational goals and shareholder value. The performance measures for both the Company's Short-term Incentive Plan (STI Plan) and Long-term Incentive Plan (LTI Plan) will be tailored to align at-risk remuneration and performance hurdle thresholds to the delivery of operational and future financial objectives and sustained shareholder value growth.

DIRECTORS' REPORT

30 JUNE 2024

Components of remuneration – Non-executive Directors

The Constitution of the Company and the ASX Listing Rules require that the aggregate remuneration of non-executive Directors shall be determined from time to time by a resolution approved by shareholders at a general meeting. Currently the aggregate remuneration threshold is set at \$0.50 million per annum as approved by shareholders at the AGM held on 14 November 2018. Legislated superannuation conditions made on behalf of non-executive Directors are included within the aggregate remuneration threshold.

Non-executive Directors receive a cash fee for their service and have no entitlement to any performance-based remuneration or any participation in any share-based incentive schemes. An additional fee for being a member of a Board committee is paid to non-executive Directors.

Fees payable to the non-executive Directors for the 2024 financial year inclusive of superannuation contributions were as follows:

	\$
Chairman	120,000
Non-executive Directors	60,000
Chair of Audit and Risk Committee (in addition to Non-executive Director fee)	15,000
Member of Audit and Risk Committee or Remuneration and Nomination Committee	5,000

Components of remuneration – Chief Executive Officer and other senior executives

a) Structure

The Company aims to reward the Chief Executive Officer and senior executives with a level and mix of remuneration commensurate with their position and responsibilities within the Group, so as to:

- reward them for Company and individual performance against targets set by reference to appropriate benchmarks and key performance indicators;
- align their interest with those of shareholders; and
- ensure total remuneration is competitive by market standards.

Remuneration consists of both fixed and variable remuneration components. The variable remuneration consists of the STI Plan and the LTI Plan.

The proportion of fixed and variable remuneration is established for the Chief Executive Officer by the Board and for each Senior Executive by the Board following recommendations from the Chief Executive Officer and the Remuneration and Nomination Committee.

The Chief Executive Officer's and Senior Executives' remuneration packages are all subject to Board approval.

b) Fixed remuneration

The fixed remuneration component of the Chief Executive Officer and senior executives' total remuneration package is expressed as a total package consisting of base salary and statutory superannuation contributions.

Fixed remuneration reflects the complexity of the individual's role and their experience, knowledge and performance. Internal and external benchmarking is regularly undertaken, and fixed remuneration levels are set with regard to the external market median, with scope for incremental increase for superior performance.

Fixed remuneration is reviewed annually, taking into account the performance of the individual and the Group. There are no guaranteed increases to fixed remuneration in any contracts of employment.

The Chief Executive Officer and senior executives have the option to receive their fixed annual remuneration in cash and a limited range of prescribed fringe benefits. The total cost of any remuneration package, including fringe

benefits tax, is taken into account in determining an employee's fixed annual remuneration.

c) Variable remuneration – STI Plan

The STI Plan component of an Executive's total remuneration is an annual cash incentive plan. The STI Plan links a portion of executive remuneration opportunity to specific financial and non-financial measures, including revenue, EBITDA and production targets.

For the financial year ended 30 June 2025, the Chief Executive Officer and Managing Director has an STI target of 50% of base salary, subject to meeting performance measures (discussed below). The maximum STI payable is 120% of the STI target.

From a governance perspective, all performance measures under the STI Plan must be clearly defined and measurable. The Remuneration and Nomination Committee approves the targets and assesses the performance outcome of the Chief Executive Officer. The Board and the Chief Executive Officer set the targets and assess the performance of Senior Executives. The Board approves STI Plan payments for the Chief Executive Officer and Senior Executives. Under the STI Plan, the Board has discretion to adjust STI Plan outcomes based on the achievements which are consistent with the Group's strategic priorities and, in the opinion of the Board, enhance shareholder value.

One hundred percent (100%) of awarded STI is paid in cash on or before 30 September following the relevant financial year. The financial performance measures will be assessed and, for the Executives to qualify for a payment of an STI, a pre-agreed level of Group profit must first be achieved. Once this has been achieved, the level of payment the Executive receives is determined based on the achievement of their pre-determined financial and non-financial measures.

For the financial year ended 30 June 2024, required performance achievements for the STI Plan were not obtained and therefore no STI payments were awarded.

d) Variable remuneration - LTI Plan

The long term incentive plan (LTI Plan) component of an Executive's total remuneration is based on performance based rights over the ordinary shares of the Company. The LTI Plan links a portion of executive remuneration opportunity to specific financial and non-financial measures. The LTI Plan was approved at the Annual General Meeting on 24 November 2020 and currently incorporates measures linked to share price performance, completion of business critical operational and strategic objectives whilst also considering term of service.

For the financial year ended 30 June 2024, required performance achievements for the LTI Plan were not obtained and therefore no LTI grants were awarded.

e) Contract for services – Chief Executive Officer

The structure of the Chief Executive Officer's remuneration is in accordance with her employment agreement dated 15 July 2024. The employment agreement is for a fixed term from 1 April 2024 to 1 July 2025. This term may be extended by mutual agreement between the Company and the employee. The Company may terminate the agreement by providing three months' notice and the Chief Executive Officer may terminate the agreement by providing three months' notice. There are no termination benefits beyond statutory leave and superannuation entitlements associated with termination in accordance with the above notice requirements or in circumstances where notice is not required pursuant to the employment agreement.

The Chief Executive Officer is entitled to participate in the Company's long term incentive ("LTI") scheme, further details of the LTI scheme are outlined in section (d) of "Components of remuneration – Chief Executive Officer and other senior executives".

f) Contract for services – senior executives

The terms on which the senior executives are engaged provide for termination by the Company on up to three months' notice, or the minimum entitlements contained in the National Employment Standards – whichever is greater. Similar notice periods apply in the event of termination by the senior executives.

DIRECTORS' REPORT

30 JUNE 2024

The senior executives are entitled to participate in the Company's LTI Plan, approved at the Annual General Meeting on 26 October 2023. Further details of the LTI Plan are outlined in section (d) of "Components of remuneration – Chief Executive Officer and other senior executives".

In accordance with best practice corporate governance, the structure of non-executive Director and executive Director remuneration is separate.

Voting and comments made at the Company's 2023 Annual General Meeting ('AGM')

At the 26 October 2023 AGM, 87.29% of the votes received supported the adoption of the remuneration report for the year ended 30 June 2023. The Company did not receive any specific feedback at the AGM regarding its remuneration practices.

Additional information

The performance of the group for the five years to 30 June 2024 are summarised below:

	2024 \$000	2023 \$000	2022 \$000	2021 \$000	2020 \$000
Sales revenue	15,373	13,777	6,411	4,293	647
Net loss before income tax	(51,242)	(33,790)	(26,468)	(25,103)	(16,939)
Net loss after income tax	(51,242)	(33,790)	(26,468)	(25,103)	(16,939)
Loss per share (cents)	(11.93)	(9.08)	(7.90)	(9.75)	(11.91)
Share price (cents)	0.04	0.13	0.31	0.28	0.47

Details of remuneration

Amounts of remuneration

During the course of the year the Key Management Personnel was defined as the Directors; the Chief Executive Officer; and Chief Financial Officer.

		Post-employment benefits		Termination benefits	Long-service leave	Super-annuation	Equity settled share-based payments	Total
		Salary and fees	Annual leave					
		\$	\$	\$	\$	\$	\$	\$
Non-executive directors								
J. Chick (i)	2024	100,801	-	-	-	11,088	-	111,887
	2023	41,977	-	-	-	4,408	-	46,385
A. McCallum (i)	2024	-	-	-	-	-	-	-
	2023	108,597	-	-	-	11,403	-	120,000
D. Rathbone	2024	58,559	-	-	-	6,441	-	65,000
	2023	58,824	-	-	-	6,176	-	65,000
R. Barnes	2024	58,559	-	-	-	6,441	-	65,000
	2023	45,075	-	-	-	4,733	-	49,808
Total	2024	217,719	-	-	-	23,948	-	241,667
Total	2023	254,473	-	-	-	26,720	-	281,193
Other Key Management Personnel and Executive Officers								
J. Pilcher (ii)	2024	163,173	8,285	-	-	15,279	-	186,737
	2023	72,398	-	-	-	7,602	-	80,000
T. Di Pietro (iii)	2024	50,769	4,298	-	-	5,585	-	60,652
	2023	-	-	-	-	-	-	-
Total	2024	213,942	12,583	-	-	20,864	-	247,389
Total	2023	72,398	-	-	-	7,602	-	80,000
Disclosed Executives – Former								
P Koetsier (iv)	2024	391,522	-9,719	-	-	27,399	71,199	482,425
	2023	154,808	-	-	-	12,646	90,512	257,966
D.Ambrosini (v)	2024	227,348	-14,455	-	-	13,699	8,962	235,554
	2023	263,288	-	-	-	24,785	19,985	308,058
J Sharman (vi)	2024	-	-	-	-	-	-	-
	2023	10,798	-	-	-	1,134	-	11,932
P Crock (vii)	2024	-	-	-	-	-	-	-
	2023	288,851	-	-	-	21,828	-	310,679
S Duncan (viii)	2024	-	-	-	-	-	-	-
	2023	220,286	-	-	-	17,954	-	238,240
Total	2024	505,697	-24,174	-	-	41,098	80,161	602,782
Total	2023	938,031	-	-	-	78,347	110,497	1,126,875
Grand total	2024	1,050,531	-11,591	-	-	85,910	80,161	1,205,011
Grand total	2023	1,264,902	-	-	-	112,669	110,497	1,488,068

- i. J Chick was appointed, and A McCallum resigned as Chair of Cann Group Limited respectively on 28 August 2023. A McCallum agreed not to take any fees as part of remuneration in 2024.
- ii. J Pilcher acted as interim CEO from 21 March 2024 (and was appointed formally on 1 April 2024).
- iii. T Di Pietro was appointed as CFO and Company Secretary on 15 April 2024 and resigned on 14 August 2024.
- iv. P Koetsier resigned as CEO on 21 March 2024 and continued as outgoing CEO until 7 June 2024 to assist with knowledge transfer to J Picher.
- v. D Ambrosini left the organisation on 22 December 2023.
- vi. J Sharman resigned from the board of Cann Group Limited on 1 September 2022.
- vii. P Crock exited as CEO on 24 March 2023.
- viii. S Duncan resigned as Chief Commercial Officer on 28 February 2023.

DIRECTORS' REPORT

30 JUNE 2024

The proportion of remuneration linked to performance and the fixed proportion are as follows:

Name	Fixed remuneration		At risk - STI		At risk - LTI	
	30 June 2024	30 June 2023	30 June 2024	30 June 2023	30 June 2024	30 June 2023
Other Key Management Personnel:						
J. Pilcher	100%	100%	-	-	-	-
T. Di Pietro	100%	100%	-	-	-	-
P. Koetsier (i)	65%	65%	-	-	35%	35%
D. Ambrosini (ii)	85%	85%	-	-	15%	15%

- P Koetsier resigned as CEO on 21 March 2024 and continued as outgoing CEO until 7 June 2024 to assist with knowledge transfer to J Picher.
- D Ambrosini left the organisation on 22 December 2023.

Additional disclosures relating to Key Management Personnel

Equity holdings

The number of shares in the Company held during the financial year by each Director and other members of Key Management Personnel of the Group, including their personally related parties, is set out below:

	Balance as at 1 July 2023	Balance as at date of appointment	Received as part of remuneration	Acquisitions, disposals or transfers*	Cessation as director/KMP	Balance at 30 June 2024
Non-Executive Directors:						
A McCallum	6,973,181	-	-	426,137	(7,399,318)	-
D Rathbone	3,430,670	-	-	165,515	-	3,596,185
J Chick	-	-	-	250,000	-	250,000
R Barnes	-	-	-	200,000	-	200,000
Other Key Management Personnel:						
J Pilcher	125,000	-	-	205,500	-	330,500
T Di Pietro	-	-	-	-	-	-
P Koetsier (i)	-	-	-	-	-	-
D Ambrosini (ii)	19,578	-	-	-	(19,578)	-
	10,548,429	-	-	1,247,152	(7,418,896)	4,376,685

*Relates to on-market purchases in defined share trading windows.

Performance shares held nominally are subject to vesting conditions.

- P Koetsier resigned as CEO on 21 March 2024 and continued as outgoing CEO until 7 June 2024 to assist with knowledge transfer to J Picher.
- D Ambrosini left the organisation on 22 December 2023.

Option holding

The number of options over ordinary shares in the Company held during the financial year by each Director and other members of key management personnel of the Group, including their personally related parties, is set out below:

	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
Options over ordinary shares					
P Koetsier	4,500,000	-	-	(3,000,000)	1,500,000
D Ambrosini	60,000	-	-	(60,000)	-
	<u>4,560,000</u>	<u>-</u>	<u>-</u>	<u>(3,060,000)</u>	<u>1,500,000</u>

Name	Number of options granted	Grant date	Expiry date	Exercise price	Fair value per option at grant date
P Koetsier	1,500,000	9 February 2023	9 February 2028	\$0.45	\$0.077

P Koetsier resigned from his position as CEO on 21 March 2024. As a result, 3,000,000 options with a vesting date in the future have been forfeit. 1,500,000 options with a vesting date of 10-Feb-24 have vested but have not yet been exercised.

D Ambrosini resigned from her position as CFO and Company Secretary on 22 December 2023. As a result, 60,000 options with a vesting date in the future have been forfeit.

Performance rights holdings

The number of performance rights over ordinary shares in the Company held during the financial year by each Director and other members of key management personnel of the Group, including their personally related parties, is set out below:

	Balance at the start of the year	Granted	Vested	Expired/ forfeited/ other	Balance at the end of the year
Performance rights over ordinary shares					
P Koetsier	666,666	-	-	(666,666)	-
D Ambrosini	403,080	-	-	(308,920)	94,160
	<u>1,069,746</u>	<u>-</u>	<u>-</u>	<u>(975,586)</u>	<u>94,160</u>

P Koetsier resigned from his position as CEO on 21 March 2024. As a result, 666,666 performance rights with a vesting date in the future have been forfeit.

In accordance with provisions for 'Good Leavers' in the Performance Rights Plan approved by the Board, 94,160 of the 2021 Series rights granted to D Ambrosini were pro-rated to her date of cessation with the organisation.

The terms and conditions of each grant of performance rights over ordinary shares affecting remuneration of directors and other key management personnel in this financial year or future reporting years are as follows:

DIRECTORS' REPORT

30 JUNE 2024

Name	Number of rights granted	Grant date	Expiry date	Share price hurdle for vesting	Fair value per right at grant date
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Performance Rights

2021 Series

D. Ambrosini	94,160	21 December 2021	21 December 2024	\$0.00	\$0.28
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The Performance Rights vest upon the achievement of certain performance milestones as set by the Board.

Other transactions with Key Management Personnel

The Company had a short-term lease for Corporate office space on normal commercial terms with Rathbone Wine Group. The lease was exited during the year to 30 June 2024. The building is owned by REI Property Sub Trust 2. Rathbone Wine Group are the head tenant. The lease was at market terms. An amount of \$0.10 million (2023: \$0.11 million) was paid during the year.

This concludes the remuneration report, which has been audited.

Shares under option

There were 34,721,574 unissued ordinary shares of Cann Group Limited under option outstanding at the date of this report.

Unissued ordinary shares of Cann Group Limited under option at the date of this report are as follows:

Grant date	Expiry date	Exercise price	Number under option
9 February 2023	9 February 2028	\$0.45	1,500,000
4 April 2023	4 April 2028	\$0.22	1,180,000
27 November 2023	24 April 2026	\$0.23	13,471,734
1 August 2023	1 February 2025	\$0.22	18,569,840
			<u>34,721,574</u>

13,471,734 options were issued as part of the convertible note with 50% held by the broker of the transaction and 50% held by the financier. Options held by the financier are reported in the convertible note reserve as at 30 June 2024.

18,569,840 options were issued as free attaching options as an incentive to attract investors to the non-renounceable rights issue in July 2023. As no good or service had been provided, no charge has been recognised in the share-based payments vesting charge during the year to 30 June 2024.

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

There were no ordinary shares of Cann Group Limited issued on the exercise of options during the year ended 30 June 2024 and up to the date of this report.

Shares under performance rights

Unissued ordinary shares of Cann Group Limited under performance rights at the date of this report are as follows:

Grant date	Expiry date	Number under rights
21 December 2021	21 December 2024	448,203
10 February 2023	10 February 2026	982,149
		<u>1,430,352</u>

Shares issued on the exercise of performance rights

There were nil (2023: 100,000) Performance shares issued on the exercise of performance rights during the year ended 30 June 2024 and up to the date of this report. LTI plan shares are issued as ordinary shares but are subject to transfer conditions for a period of two years from their date of issue or until the employee ceases employment with the Company.

Indemnifying officers and auditors

No indemnities have been given, however, a Directors and Officers insurance premium of \$0.18 million has been paid during the year for any person who is or has been an officer of the Group. No indemnities have been given during or since the end of the year for any person who has been an auditor of the Group.

Proceedings on behalf of the Group

There were no proceedings entered into by the Company during the year.

Rounding of amounts

The Company is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

Auditor

William Buck Audit (Vic) Pty Ltd continues in office in accordance with section 327 of the Corporations Act 2001.

Non-audit services

The Company's Audit and Risk Committee (Committee) is responsible for the maintenance of audit independence. Specifically, the Committee Charter ensures the independence of the auditor is maintained by:

- limiting the scope and nature of non-audit services that may be provided; and
- requiring that permitted non-audit services must be pre-approved by the Chairman of the Committee.

During the year William Buck, the Group's auditor, has performed certain other services in addition to the audit and review of the financial statements. The Board has considered the non-audit services provided during the year by the auditor and in accordance with the advice provided by the Committee, is satisfied that the provision of those non-audit services during the year by the auditor is compatible with, and did not compromise, the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- All non-audit services were subject to the corporate governance procedures adopted by the Group and have been reviewed by the Committee to ensure they do not impact the integrity and objectivity of the auditor; and
- The non-audit services provided do not undermine the general principles relating to auditor independence as set out in APES110 Code of Ethics for Professional Accountants (including Independence Standards) as they did not involve reviewing or auditing the auditors own work, acting in a management or decision-making capacity for the Group, acting as an advocate for the Group or jointly sharing risks and rewards.

Details of the amounts paid to the auditor of the Group, William Buck, for audit and non-audit services provided during the year are set out in note 16.

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.

DIRECTORS' REPORT

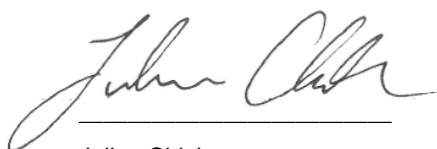
30 JUNE 2024

CEO and CFO declaration

The CEO and CFO have given a declaration to the Board concerning the Group's financial statements under section 295A(2) of the *Corporations Act 2001* and recommendation 4.2 [GF1] of the ASX Corporate Governance Council Corporate Governance Principles and Recommendations (4th edition) in regards to the integrity of the financial statements.

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

A handwritten signature in black ink, appearing to read 'Julian Chick', written over a horizontal line.

Julian Chick
Chairman

30 August 2024

INDEPENDENT AUDITOR'S DECLARATION



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

To the directors of Cann Group Limited

As lead auditor for the audit of Cann Group Limited for the year ended 30 June 2024, I declare that, to the best of my knowledge and belief, there have been:

- no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- no contraventions of any applicable code of professional conduct in relation to the audit.

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

William Buck

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

A handwritten signature in black ink, appearing to read 'N. S. Benbow'.

N. S. Benbow
Director
Melbourne, 30 August 2024

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CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2024

	Note	30 June 2024 \$'000	30 June 2023 \$'000
Revenue from customer contracts	5	15,373	13,777
Other income	5	3,701	7,898
Total revenue and other income		<u>19,074</u>	<u>21,675</u>
Expenses			
Administration and corporate costs	6	(5,424)	(5,343)
Direct production costs		(12,178)	(15,095)
Employee costs		(13,913)	(14,344)
Research and development costs		(755)	(4,289)
Depreciation and amortisation expense		(11,037)	(11,960)
Finance costs		(6,819)	(3,158)
Loss on fair value of investment		(64)	(1,276)
Impairment of property, plant and equipment		(20,126)	-
Loss before income tax expense		(51,242)	(33,790)
Income tax expense		-	-
Loss after income tax expense for the year		(51,242)	(33,790)
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Foreign currency translation		115	41
Other comprehensive income for the year, net of tax		115	41
Total comprehensive loss for the year		<u>(51,127)</u>	<u>(33,749)</u>
		Cents	Cents
Basic loss per share	14	(11.93)	(9.08)
Diluted loss per share	14	(11.93)	(9.08)

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

FOR THE YEAR ENDED 30 JUNE 2024

	Note	30 June 2024 \$'000	30 June 2023 \$'000
Assets			
Current assets			
Cash and cash equivalents		1,640	765
Trade and other receivables	7	4,084	5,643
Prepayments		347	2,105
Inventories	8	8,505	11,406
Biological assets		1,684	790
		<u>16,260</u>	<u>20,709</u>
Non-current assets classified as held for sale		-	493
Total current assets		<u>16,260</u>	<u>21,202</u>
Non-current assets			
Property, plant and equipment	9	76,444	107,396
Intangible assets		36	215
Trade and other receivables	7	-	514
Financial assets at fair value through profit or loss		31	139
Total non-current assets		<u>76,511</u>	<u>108,264</u>
Total assets		<u>92,771</u>	<u>129,466</u>
Liabilities			
Current liabilities			
Trade and other payables	10	5,437	7,853
Contract liabilities		176	435
Employee entitlements		587	817
Borrowings	11	69,625	15,290
Convertible notes	24	2,420	-
Total current liabilities		<u>78,245</u>	<u>24,395</u>
Non-current liabilities			
Employee entitlements		184	135
Borrowings	11	421	45,675
Total non-current liabilities		<u>605</u>	<u>45,810</u>
Total liabilities		<u>78,850</u>	<u>70,205</u>
Net assets		<u>13,921</u>	<u>59,261</u>
Equity			
Issued capital	12	182,899	177,368
Reserves	13	494	123
Accumulated losses		<u>(169,472)</u>	<u>(118,230)</u>
Total equity		<u>13,921</u>	<u>59,261</u>

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2024

	Issued capital \$'000	Share based payments reserve \$'000	Foreign currency translation reserve \$'000	Convertible note reserve \$'000	Accumulated losses \$'000	Total equity \$'000
Balance at 1 July 2022	169,425	98	(180)	-	(84,440)	84,903
Loss after income tax expense for the year	-	-	-	-	(33,790)	(33,790)
Other comprehensive income for the year, net of tax	-	-	41	-	-	41
Total comprehensive income/(loss) for the year	-	-	41	-	(33,790)	(33,749)
<i>Transactions with owners in their capacity as owners:</i>						
Contributions of equity, net of transaction costs (note 12)	7,915	-	-	-	-	7,915
Vesting charge for share-based payments	-	192	-	-	-	192
Conversion of employee performance rights	28	(28)	-	-	-	-
Balance at 30 June 2023	177,368	262	(139)	-	(118,230)	59,261

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2024

	Issued capital \$'000	Share based payments reserve \$'000	Foreign currency translation reserve \$'000	Convertible note reserve \$'000	Accumulated losses \$'000	Total equity \$'000
Balance at 1 July 2023	177,368	262	(139)	-	(118,230)	59,261
Loss after income tax expense for the year	-	-	-	-	(51,242)	(51,242)
Other comprehensive income for the year, net of tax	-	-	115	-	-	115
Total comprehensive income/(loss) for the year	-	-	115	-	(51,242)	(51,127)
<i>Transactions with owners in their capacity as owners:</i>						
Issue of shares relating to capital raise (note 12)	4,457	-	-	-	-	4,457
Issue of shares related to services (note 12)	82	-	-	-	-	82
Issue of placement and commitment shares (note 12)	768	-	-	-	-	768
Issue of shares on conversion of convertible notes (note 12)	515	-	-	-	-	515
Transaction costs associated with issuing equity	(291)	-	-	-	-	(291)
Vesting charge for share-based payments (note 13)	-	176	-	-	-	176
Issue of options to convertible note holders (note 13)	-	-	-	80	-	80
Balance at 30 June 2024	182,899	438	(24)	80	(169,472)	13,921

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 2024

	Note	30 June 2024 \$'000	30 June 2023 \$'000
Cash flows from operating activities			
Receipts from customers		16,334	13,534
Payments to suppliers and employees		(30,439)	(41,347)
Interest received		17	1
Other income received		3,468	4,977
Interest and other finance costs paid		(4,565)	-
Net cash used in operating activities	20	<u>(15,185)</u>	<u>(22,835)</u>
Cash flows from investing activities			
Payments for property, plant and equipment	9	(2,505)	(3,101)
Proceeds from disposal of fixed assets		3,680	3,073
Net cash from/(used in) investing activities		<u>1,175</u>	<u>(28)</u>
Cash flows from financing activities			
Proceeds from issue of shares net of expenses	12	4,457	7,915
Proceeds from borrowings		20,985	17,603
Net proceeds from convertible notes		1,865	-
Repayment of borrowings		(12,491)	(3,500)
Repayment of lease liabilities		(45)	(304)
Net cash from financing activities		<u>14,771</u>	<u>21,714</u>
Net increase/(decrease) in cash and cash equivalents		761	(1,149)
Cash and cash equivalents at the beginning of the financial year		765	1,914
Effects of exchange rate changes on cash and cash equivalents		114	-
Cash and cash equivalents at the end of the financial year		<u>1,640</u>	<u>765</u>

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 JUNE 2024

Note 1. Corporate information

These are the financial statements of Cann Group Limited (Company) and its subsidiaries, including Cannproducts Pty Ltd, Cannoperations Pty Ltd, Cann IP Pty Ltd, Botanitech Pty Ltd, all incorporated and domiciled in Victoria, Australia and the Satipharm business, comprising Satipharm Europe, Satipharm Limited, Satipharm AG, Satipharm Australia Pty Ltd, Satipharm Canada Limited and Phytotech Therapeutics Ltd (together, the Group). Cann Group Limited is an ASX-listed public company incorporated and domiciled in Victoria, Australia. These financial statements are for the year ended 30 June 2024. Unless otherwise stated, all amounts are presented in thousands of \$AUD (\$'000), which is the functional and presentation currency of all entities in the Group with the exception of the Satipharm business, whose functional currency is the Euro. The financial statements were authorised for issue by the Directors on the date of signing the attached Directors' Declaration.

Note 2. Material accounting policy information

The accounting policies that are material to the Group are set out below. The accounting policies adopted are consistent with those of the previous financial year, unless otherwise stated.

New or amended Accounting Standards and Interpretations adopted

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

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

Going concern

The Consolidated Group has incurred net losses for the year ended 30 June 2024 of \$51.24 million (30 June 2023: \$33.79 million), a net current asset deficiency of \$61.99 million as at 30 June 2024 (30 June 2023: \$4.27 million) and has a net cash outflow from operating activities of \$15.19 million for the year ended 30 June 2024 (30 June 2023: \$22.86 million). These conditions, in conjunction with matters described below, give rise to a material uncertainty that may cast significant doubt on the consolidated entity's ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

The Directors believe there are reasonable grounds to expect the Group will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report, and therefore it is appropriate to adopt the going concern basis in the preparation of the financial report after consideration of a range of relevant factors, including (but not limited to) the following:

Cashflows from funding and asset sales

Cash on hand is \$1.63 million, with a further \$0.61 million of unused NAB working capital facility available for draw down, as at 30 June 2024.

Support from Cann's major financier, National Australia Bank (NAB)

Existing NAB debt arrangements have been modified throughout the year providing funding flexibility, demonstrating the continued support of Cann by its major lender, as follows:

- Extension of the maturity date of the Construction Facility from 31 May 2024 to 31 May 2025 on 19 January 2024;
- Extension of the maturity date of the Working Capital Facility from 30 November 2024 to 31 March 2025 (effective 15 March 2024), and more recently, extension to 31 May 2025 (21 August 2024).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 JUNE 2024

Note 2. Material accounting policy information (continued)

- Amending the current 90-day loan interest period temporarily to 180 days for the period November 2023 to May 2024.
- On 6 May 2024, NAB provided a letter of waiver, waiving its right to any further action for both the historical breach (Gearing Ratio as at 31 Dec 2023) and the current breach (Gearing Ratio as at 31 Mar 2024).
- Removal of the gearing ratio covenant effective from 30 June 2024.
- A letter of intent was also received from NAB dated 29 August 2024 confirming that no call will be made on either facility for a period of 13 months to 29 September 2025.

Continued access to debt funding

- On the 6 May 2024, the Group entered into a debt facility agreement for \$5.00 million (before costs) from a private Australian credit fund which will be used to meet the group's working capital requirements. Further information on the terms of this facility can be found in the Borrowings note.
- On 19 August 2024 (post year-end) the Group commenced draw down of \$0.50 million from its short-term debt facility it has established with a high net-worth lender. This loan is unsecured, has a 3-month term, and interest is payable at 20% per annum. This facility is used for working capital purposes from time to time.

Short-medium term funding options

The Directors are currently exploring and evaluating several short-medium term funding options for the Group, which are described below:

- On 17 July 2024 (subsequent to year-end) the Group appointed LAWD as sole agent for a potential sale and leaseback of its Mildura facility. The property is currently being marketed and the Group will assess any offers as when they become available. Any offers will be assessed not only against each other but also against other potential funding options that might be available at the time.
- On 13 August 2024, the Company received a non-binding term sheet from a financier for a \$3 million convertible note facility.
- On 26 August 2024 the Group submitted its corporate tax return for the year ended 30 June 2024 which includes a claim for an R&D Tax Incentive refund of \$1.96 million. The Directors expect to receive this refund in cash in the next month or two. The Group has made successful claims under this program in the past, most recently receiving \$3.43 million for the year ended 30 June 2023 (2022: \$4.30 million).
- A Rights Issue to shareholders in Q4 2024 is currently being evaluated.
- In November 2023 the Group executed an unsecured Convertible Securities and Share Placement Agreement for an aggregate amount of up to \$15.00 million, with an initial drawdown of \$2.00 million. Future drawdowns under this facility are subject to the lender's agreement.

Cashflows from operations

- Demand for high quality dried flower products remains high in Australia. Continuous improvement in flavour profiles, bud aesthetics and terpenes, along with diversity in cultivars, are increasingly becoming priorities for customers. This represents a significant opportunity for Cann Group given the strong improvements the Group has made to its flower quality.
- The Group's revenue continues to achieve year on year growth, with its Botanitech product range achieving 58% growth over the prior year, and now accounting for 33% of sales revenue. The Botanitech range is set to expand further in September with the launch of several new products from its R&D facility which are expected to drive revenue growth. Botanitech sales are expected to be well supported by new and existing long-term supply arrangements and new GMP-packing service agreements.

Note 2. Material accounting policy information (continued)

- With ongoing process improvements in the Mildura operations during this financial year, most notably the introduction of hang-drying techniques for all crops from 1 January 2024, Cann is also well placed to meet the growing demands for product exclusivity and consistent supply via its Mildura facility. Its forecast of 6.5 tonnes for the financial year ending 30 June 2025, which is required to meet revenue forecasts, is very achievable given Cann has already produced in excess of this required level at certain times throughout the current financial year and has now gained the knowledge and experience of doing so.
- Cann's R&D facility has continued its successful in-house breeding program incorporating exclusively sourced, elite, modern, exotic varieties which is resulting in a pipeline of exciting new strains emerging from its production facility at Mildura in 2024 and beyond, which is important to the success of Botanitech.
- During the second half of the current financial year, the Group embarked on a cost efficiency program. This program includes an executed restructure of staffing, an exit of the Group's leased office in Port Melbourne, and a reduction of labour hire and casual labour at its Mildura facility as process efficiencies are underway. The cost savings achieved from this program to date is approximately \$3.00 million per annum.

The Directors have prepared cash flow forecasts that indicate that the Consolidated Group will have sufficient cash flows to meet its commitments for a period of at least 12 months from the date of this report. This forecast takes into account the newly reset cost-base of the Group, growth of the Botanitech product range, and supported by some of the additional funding options being pursued as disclosed above.

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

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

Basis of preparation

The financial statements are general purpose financial statements that have been prepared in accordance with Australian Accounting Standards, including Australian Accounting Interpretations, other authoritative announcements of the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001* as appropriate for-profit oriented entities.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in financial statements containing relevant and reliable information about transactions, events and conditions. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards. Material accounting policies adopted in the preparation of these financial statements are presented below. They have been consistently applied unless otherwise stated.

The financial statements have been prepared on an accruals basis and are based on historical costs unless otherwise stated.

Unless otherwise stated, amounts in this report have been rounded to the nearest thousand dollars.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 2. Material accounting policy information (continued)

Historical cost convention

The financial statements have been prepared under the historical cost convention, except for where applicable, the revaluation of the financial assets and liabilities at fair value through the profit and loss.

Critical accounting estimates

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 Group'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 3.

Parent entity information

In accordance with the Corporations Act 2001, these financial statements present the results of the Group only. Supplementary information about the parent entity is disclosed in note 23.

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all the subsidiaries of the Group as at 30 June 2024 and the results of all its subsidiaries for the reporting period.

Subsidiaries refer to entities over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of the potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The financial statements of the subsidiaries used in the preparation of the consolidated financial statements are prepared for the same reporting date as the Group. Consistent accounting policies are applied to like transactions and events in similar circumstances.

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 Group.

Subsidiary Name	Date Acquired	Percentage Shareholding 2024	Percentage Shareholding 2023
Cannproducts Pty Ltd (ACN 600 887 189)	27 February 2015	100.00%	100.00%
Cannoperations Pty Ltd (ACN 603 323 226)	27 February 2015	100.00%	100.00%
Cann IP Pty Ltd (ACN 169 764 407)	27 February 2015	100.00%	100.00%
Botanitech Pty Ltd (ACN 604 834 488)	18 March 2015	100.00%	100.00%
Satipharm Europe Ltd	10 March 2021	100.00%	100.00%
Satipharm Limited	10 March 2021	100.00%	100.00%
Satipharm AG	10 March 2021	100.00%	100.00%
Satipharm Australia Pty Ltd	10 March 2021	100.00%	100.00%
Satipharm Canada Limited	10 March 2021	100.00%	100.00%
Phytotech Therapeutics Ltd	10 March 2021	100.00%	100.00%

The financial statements are presented in Australian dollars, which is Cann Group Limited's functional and presentation currency.

Note 2. Material accounting policy information (continued)

Revenue recognition

The Group recognises revenue as follows:

Revenue from contracts with customers

The Group generates revenue primarily from the sale of medicinal cannabis products as well as from the provision of services. The Group uses the following five-step contract-based analysis of transactions to determine whether, how much and when revenue is recognised:

1. Identify the contract with a customer;
2. Identify the performance obligation(s) in the contract;
3. Determine the transaction price;
4. Allocate the transaction price to the performance obligation(s) in the contract; and
5. Recognise revenue when or as the company satisfies the performance obligation(s).

Revenue from the sale of cannabis is generally recognised when control over the goods has been transferred to the customer. Payment for medicinal cannabis products is due within a specified time period as permitted by the underlying agreement and the Group's credit policy upon the transfer of goods to the customer. The Group satisfies its performance obligation and transfers control to the customer upon delivery and acceptance by the customer. Revenue is recorded at the estimated amount of consideration to which the Company expects to be entitled.

Consignment Revenue

The Group also generates revenue through consignment sales each month. Revenue from these sales is recognised only after the goods are sold by the consignee to a third party.

Service Revenue

The Group generates revenue through the provision of services including cultivation and contract packing. Revenue is recognised on a monthly basis as the services are completed.

Interest income

Interest income is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Other revenue

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

Government grants

Government grants are recognised when they are received or when the right to receive payment is established. As the Company can reliably estimate the its R&D tax incentive rebate an accrual is recognised in the current year under Australian Accounting Standards. Revenue with the R&D tax incentive rebate is accrued at 43.5% of the eligible R&D expenditure.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 2. Material accounting policy information (continued)

Inventory

Inventory is valued depending upon the specific purpose of that inventory class. Costs incurred for inventory held as research and development expenses are expensed as incurred.

Biomass plant inventory is valued at cost or net realisable value, whichever is less.

Finished goods

Both Oil and Resin inventory is valued at cost or net realisable value, whichever is less.

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.

Property, plant and equipment

Each class of property, plant and equipment is carried at cost less any accumulated depreciation and impairment losses.

The carrying amount of property, plant and equipment is reviewed annually by Directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset's employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

The cost of property, plant and equipment constructed within the Group includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads.

The depreciable amount of all property, plant and equipment is depreciated on a straight-line basis over the asset's useful life to the Group commencing from the time the asset is held ready for use.

As at 30 June 2024, the Group's asset classes had effective useful lives as follows:

Cultivation plant and equipment	1-7 years
Manufacturing plant and equipment	2-7 years
Computer and network equipment	1-3 years
Other plant and equipment	1-3 years
Buildings	20 years
Land	N/A

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

Leasehold improvements are depreciated over the unexpired period of the lease or the estimated useful life of the assets, whichever is shorter.

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the Group. Gains and losses between the carrying amount and the disposal proceeds are included in the statement of profit or loss and other comprehensive income.

Note 2. Material accounting policy information (continued)

- increase the carrying amount to reflect interest on the lease liabilities;
- reducing the carrying amount to reflect lease payments made; and
- remeasuring the carrying amount to reflect any reassessment or lease modifications.

Biological assets

The Group defines the biological assets as cannabis plants up to the point of harvest. Biological assets are valued at fair value less costs to sell, and where the fair value is not readily available, at the lower of cost or NRV as at the end of each reporting period.

Impairment of non-financial assets

At each reporting date, the Group's Directors review the carrying values of the Group's tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less cost to sell and value in use, is compared to the assets carrying value. Any excess of the assets carrying value over its recoverable amount is expensed to the statement of profit or loss and other comprehensive income.

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.

Borrowings

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

When borrowings have conversion clauses that entitle the investor to a variable number of shares, at initial recognition an embedded derivative is recognised separately on the statement of financial position at fair value and thereafter is recognised at fair value with changes in fair value taken to the profit or loss. The underlying host contract is separated from the embedded derivative at initial recognition and thereafter measured at amortised cost, using the effective interest method.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 2. Material accounting policy information (continued)

Rounding of amounts

The Company is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

Note 3. Critical accounting judgements, estimates and assumptions

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

Key judgments – non-recognition of carry-forward tax losses

The balance of future income tax benefit estimated as \$4.47 million (2023: \$7.29 million) arising from current year tax losses of \$17.86 million (2023: \$33.79 million) and timing differences has not been recognised as an asset because it is not clear when the losses will be recovered. The cumulative future income tax benefit estimated to be \$25.62 million, which has not been recognised as an asset, will only be obtained if:

- (i) the Group derives future assessable income of a nature and an amount sufficient to enable the benefit to be realised;
- (ii) the Group continues to comply with the conditions for deductibility imposed by law; and
- (iii) no changes in tax legislation adversely affecting the Company realising the benefit.

Key judgments – recognition of research and development tax incentive benefits

The Group is entitled to claim grant credits from the Australian Government in recompense for its research and development program expenditure. The program is overseen by AusIndustry, which is entitled to audit and/or review claims lodged for the past 4 years. In the event of a negative finding from such an audit or review AusIndustry has the right to rescind and clawback those prior claims, potentially with penalties. Such a finding may occur in the event that those expenditures do not appropriately qualify for the grant program. In their estimation, considering also the independent external expertise they have contracted to draft and claim such expenditures, the directors of the company consider that such a negative review has a remote likelihood of occurring.

The balance of research and development tax incentive arising from operations of the Group has been recognised as an asset after a review was conducted by the Company's independent research and development specialists to 30 June 2024. The research and development tax incentive, will only be obtained if:

- (i) the Group's activities fulfil the eligibility criteria of the research and development tax initiative and it is successful in registering for the research and development tax initiative;

Note 3. Critical accounting judgements, estimates and assumptions (continued)

- (i) the Group continues to comply with the conditions for registration of the research and development tax initiative imposed by law; and
- (ii) no changes in tax legislation adversely affecting the Group realising the tax incentive from research and development.

The Company has accrued the expected FY24 R&D tax incentive rebate.

Key judgments – recognition of research and development tax incentive benefits

The Group is entitled to claim grant credits from the Australian Government in recompense for its research and development program expenditure. The program is overseen by AusIndustry, which is entitled to audit and/or review claims lodged for the past 4 years. In the event of a negative finding from such an audit or review AusIndustry has the right to rescind and clawback those prior claims, potentially with penalties. Such a finding may occur in the event that those expenditures do not appropriately qualify for the grant program. In their estimation, considering also the independent external expertise they have contracted to draft and claim such expenditures, the directors of the company consider that such a negative review has a remote likelihood of occurring.

The balance of research and development tax incentive arising from operations of the Group has been recognised as an asset after a review was conducted by the Company's independent research and development specialists to 30 June 2024. The research and development tax incentive, will only be obtained if:

- (i) the Group's activities fulfil the eligibility criteria of the research and development tax initiative and it is successful in registering for the research and development tax initiative;
- (ii) the Group continues to comply with the conditions for registration of the research and development tax initiative imposed by law; and
- (iii) no changes in tax legislation adversely affecting the Group realising the tax incentive from research and development. The Company has accrued the expected FY24 R&D tax incentive rebate.

Key judgments – write down of inventories (refer note 8 for details)

The provision for the write down of inventories assessment requires a degree of estimation and judgement. The level of the write down is assessed by taking into account the recent sales experience, the ageing of inventories and other factors that affect inventory obsolescence.

Key judgments – impairment of property, plant and equipment (refer note 9 for details)

As at 30 June 2024, due to impairment triggers (e.g. a reduction in market capitalisation against the net assets of the Group), the directors conducted a fair valuation assessment on the plant, property and equipment held at the Group's Mildura facility. The valuation approach employed was based upon a discounted cash flow model. In making their assessment, the directors consulted an independent fair valuation specialist experienced in agribusiness valuations, which corroborated their fair valuation methodology and also provided advice on the inputs and assumptions thereof. The recoverable amount was based on value-in-use.

The total fair valuation of this property, plant and equipment was assessed, applying a value-in-use discounted model at \$75.20m. The valuation was performed on the Mildura site as a CGU. Accordingly, an impairment charge of \$20.12m was applied, pro-rata, to the value of this plant, property and equipment at the Mildura site.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 3. Critical accounting judgements, estimates and assumptions (continued)

In determining this valuation, the specialist considered the following key inputs and assumptions in the discounted cashflow model:

	2025 %	2026 %	2027 %	2028 %	2029 %
Revenue growth	64.05%	41.27%	8.34%	4.74%	0.83%
Gross margin	74.00%	74.00%	78.00%	81.00%	82.00%
Inflation	2.65%	2.51%	2.52%	2.50%	2.37%
Terminal yield	-	-	-	-	20.00%
Total tonnage yield	5.5	7.7	9.0	9.7	9.9

The discount rate applied in the model was 20.00%

Discount rate sensitivity

%	Value
18.00%	81,800,000
19.00%	78,400,000
20.00%	75,200,000
21.00%	72,200,000
22.00%	69,400,000

Note 4. Operating segments

Determination and presentation of operating segments

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. An operating segment's results are regularly reviewed by the CEO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete information is available.

Segment results that are reported to the CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets, head office expenses, and income tax assets and liabilities.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets other than goodwill.

The Group operates in one operational sector and has identified only one reportable segment being cultivation of medicinal cannabis and further processing into manufactured medicinal cannabis products, as well as the corporate office.

Geographical information of total sales and total non-current assets is disclosed as below.

Note 4. Operating segments (continued)

Geographical information

	Revenues from external customer contracts		Geographical non-current assets	
	30 June 2024 \$'000	30 June 2023 \$'000	30 June 2024 \$'000	30 June 2023 \$'000
Australia	15,034	12,968	76,444	108,262
Europe	339	809	-	2
	<u>15,373</u>	<u>13,777</u>	<u>76,444</u>	<u>108,264</u>

Note 5. Revenue and other income

	30 June 2024 \$'000	30 June 2023 \$'000
Research and development tax incentives and other government grants	2,150	5,955
Other income	835	902
Gain on sale of fixed assets	<u>716</u>	<u>1,041</u>
	<u>3,701</u>	<u>7,898</u>
	30 June 2024 \$'000	30 June 2023 \$'000
Revenue from sales of products	14,023	13,076
Revenue from services	<u>1,350</u>	<u>701</u>
	<u>15,373</u>	<u>13,777</u>

Revenue from the sale of cannabis is generally recognised when control over the goods has been transferred to the customer. Refer to Note 2 for the company's revenue recognition policy.

Included in revenue from sales of products is accrued consignment sales revenue of \$0.46 million (2023: \$0.45 million).

There is one customer that accounts for 36% (2023: 25%) of total revenue from product sales in the period.

An accrual of \$2.0m has been raised for the FY24 Research and Development Tax Incentive (2023: \$3.44m) after a full year review was conducted by the Company's R&D consultants.

A gain on sale of \$1.73 million was recognised after completion of the sale of the Southern Facility land & buildings to SatiVite Pty Ltd which was settled on 22 March 2024 for \$1.90 million.

A loss on sale of \$1.02 million was recognised following sale of plant & equipment surplus to the Group's needs to a variety of third parties for a total of \$1.80 million.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 5. Revenue and other income (continued)

Reconciliation of loss on sale of plant & machinery

	2024	2023
Assets at cost	(4,356)	-
Accumulated depreciation	1,558	-
Proceeds net of commission	1,780	-
	<u>(1,018)</u>	<u>-</u>

Reconciliation of gain on sale of plant & machinery

Assets at cost	(5,015)	(2,872)
Accumulated depreciation	4,849	838
Proceeds net of commission	1,900	3,075
	<u>1,734</u>	<u>1,041</u>
Total gain on sale of assets	716	1,041

Note 6. Administration and corporate costs

	30 June 2024 \$'000	30 June 2023 \$'000
Vesting charge for share-based payments	176	192
Other corporate and administration expenses	2,991	2,314
Insurance expenses	1,182	1,244
Impairment of goodwill	-	671
Legal and consultancy expenses	642	922
Impairment of investment at fair value through profit or loss	433	-
	<u>5,424</u>	<u>5,343</u>

A write down to investments at fair value through profit or loss of \$0.43 million has been charged to administration and corporate costs during the period to recognise the impairment of an investment following the settlement of a receivable through the issue of shares from a customer experiencing cash flow issues.

Note 7. Trade and other receivables

	30 June 2024 \$'000	30 June 2023 \$'000
Current assets		
Trade receivables	1,607	1,592
Other receivables	2,014	3,597
Accrued revenue from consignment sales	463	454
	<u>2,477</u>	<u>4,051</u>
	<u>4,084</u>	<u>5,643</u>
Non-current assets		
Trade receivables	-	514

Other receivables in FY24 includes \$1.97 million in R&D tax incentive accruals to 30 June 2024 (2023: \$3.44 million).

Note 8. Inventories

	30 June 2024 \$'000	30 June 2023 \$'000
<i>Current assets</i>		
Cultivation materials & work in progress	304	953
Finished goods - biomass	5,466	2,018
Finished goods - crude extract resin	874	3,266
Finished goods - oil	1,502	2,008
Other inventories	148	327
Finished goods - Gelpell	211	2,834
	<u>8,505</u>	<u>11,406</u>

After review of the inventory balances a write down to inventory of \$4.88 million (2023: \$1.43 million) has been charged to direct production costs during the period to recognise the cost of unsaleable inventory.

Note 9. Property, plant and equipment

	30 June 2024 \$'000	30 June 2023 \$'000
<i>Non-current assets</i>		
Land and buildings - at cost	77,096	75,991
Less: Accumulated depreciation	(7,330)	(4,039)
Less: Impairment	(14,730)	-
	<u>55,036</u>	<u>71,952</u>
Freehold improvements - at cost	438	429
Less: Accumulated depreciation	(355)	(287)
	<u>83</u>	<u>142</u>
Plant and equipment - at cost	40,982	44,203
Less: Accumulated depreciation	(15,426)	(10,031)
Less: Impairment	(5,396)	-
	<u>20,160</u>	<u>34,172</u>
Fixtures and fittings - at cost	894	889
Less: Accumulated depreciation	(407)	(276)
	<u>487</u>	<u>613</u>
Computer equipment - at cost	582	567
Less: Accumulated depreciation	(435)	(289)
	<u>147</u>	<u>278</u>
Capital work in progress	531	239
	<u>76,444</u>	<u>107,396</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 9. Property, plant and equipment (continued)

Reconciliations

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

	Land and buildings \$'000	Freehold improvements \$'000	Plant and equipment \$'000	Fixtures and fittings \$'000	Computer equipment \$'000	Capital work in progress \$'000	Total \$'000
Balance at 1 July 2023	71,952	142	34,172	613	278	239	107,396
Additions	-	-	66	4	34	2,401	2,505
Disposals	(300)	-	(2,154)	(1)	-	(15)	(2,470)
Impairment of assets	(14,730)	-	(5,396)	-	-	-	(20,126)
Write off of assets	-	-	-	-	(19)	(14)	(33)
Transfers in/(out)	1,442	8	626	4	-	(2,080)	-
Depreciation expense	(3,328)	(68)	(7,154)	(133)	(145)	-	(10,828)
Balance at 30 June 2024	55,036	82	20,160	487	148	531	76,444

As at 30 June 2024, the directors assessed the fair value of property, plant and equipment as part of the Mildura CGU using an independent fair valuation specialist. The total fair valuation of this property, plant and equipment was assessed to be \$75.20 million, applying a value-in-use discounted model. Accordingly, an impairment charge of \$20.13 million was applied, pro-rata, to the assets of the CGU.

On 22 March 2024, the Group announced it had received the final payment of \$1.90 million from SatiVite Pty Ltd for the sale of assets at its formerly owned Southern cultivation and manufacturing facility.

On 18 March 2024, the Group announced it had reached terms with Biortica Agrimed Ltd (Biortica) for the sale of a range of equipment surplus to Cann's needs for \$1.70 million (excluding GST). The full amount from this sale was received by 30 June 2024.

	Land and buildings \$'000	Freehold improvements \$'000	Plant and equipment \$'000	Fixtures and fittings \$'000	Computer equipment \$'000	Capital work in progress \$'000	Total \$'000
Balance at 1 July 2022	74,663	633	41,311	719	371	232	117,929
Additions	-	-	113	22	61	2,908	3,104
Classified as held for sale (note 11)	-	-	(493)	-	-	-	(493)
Disposals	(1,652)	(383)	-	-	-	-	(2,035)
Transfers in/(out)	2,266	-	602	-	-	(2,901)	(33)
Depreciation expense	(3,325)	(108)	(7,361)	(128)	(154)	-	(11,076)
Balance at 30 June 2023	71,952	142	34,172	613	278	239	107,396

On 23 December 2022, Cann Group announced it had reached terms with SatiVite Pty Ltd on the sale of Cann's Southern cultivation and manufacturing facility for total consideration of \$5.48 million. The parties came to terms on the sale of the Southern Facility's land and business assets, the licensing of certain Cann proprietary genetics, and the provision of services from Cann to SatiVite to assist with the transfer of commercial operations.

Note 10. Trade and other payables

	30 June 2024 \$'000	30 June 2023 \$'000
Mildura construction	35	188
Contract manufacturing	793	1,076
Cultivation vendors	540	387
Accrued expenses	2,058	1,568
Research and development	624	783
Other vendors	1,387	3,851
Total trade and other payables	5,437	7,853

Other payables include premium funding contracts for Cann Group insurance contracts of \$0.04 million (2023: \$0.73 million). Insurance premiums are paid on a monthly basis allowing Cann to spread these costs out over the life of the policy.

Note 11. Borrowings

	30 June 2024 \$'000	30 June 2023 \$'000
<i>Current liabilities</i>		
NAB Working Capital facility	14,945	14,020
Construction facility	49,400	1,200
Chattel mortgages	130	70
Short term loans	5,150	-
	69,625	15,290
<i>Non-current liabilities</i>		
NAB Construction facility	-	45,511
Chattel mortgages	421	164
	421	45,675

Working capital facility

In April 2022 Cann executed documentation to enter into a \$15.60 million working capital facility with the National Australia Bank. The working capital facility has been used by Cann to support the scale up of the business and the next phase of its long-term growth strategy.

The working capital facility had an initial period with review on 30 November 2022 and thereafter it will be reviewed on rolling 12-month periods. The last review was done in November 2023 at which point it was extended to 31 May 2025. This facility has a drawn margin rate of 7.01% pa and a facility fee of 0.35% pa and it is a secured facility.

The Working Capital facility is cross-collateralised and co-defaulting with the Construction facility. As at 30 June 2024 the facility had been drawn down by \$14.95 million leaving an undrawn balance of \$0.61 million. The Working Capital Facility has been extended from 30 November 2024 to 31 May 2025.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 11. Borrowings (continued)

Construction facility

The Construction facility was renegotiated in April 2022 after the commissioning of the Mildura facility. Key terms of this facility include a base interest rate of the BBSY and a total drawn margin rate of 7.25%. A facility fee of 0.35% pa is also applicable. As at 30 June 2024 the facility had been fully drawn down to \$49.40 million. The quarterly repayments of the principal loan amounts have been extended from May 2024 to May 2025.

Short-term loans

On 7 May 2024 Cann executed a facility agreement with a prominent Australian private credit fund to provide a secured debt facility of \$5.00 million. The full \$5.00 million was drawn in one lump sum. The principal is subject to 15% interest per annum, payable monthly in arrears and the facility has a maturity date of 7 May 2025. The facility is secured over Cann's Mildura property as a second mortgage behind the NAB. In addition to the monthly interest, the Facility has upfront fees of 3% of the principal, \$0.07 million work fee and a 1% broker fee together with customary legal costs.

Note 12. Issued capital

	30 June 2024 Shares	30 June 2023 Shares	30 June 2024 \$'000	30 June 2023 \$'000
Ordinary shares - fully paid	445,846,142	388,614,865	182,899	177,368

Movements in ordinary share capital

Details	Date	Shares	Issue price	\$'000
Balance	1 July 2022	351,355,198		169,425
Transaction costs associated with issuing equity	30 November 2022	-	\$0.00	(11)
Shares issued under share purchase plan	7 December 2022	37,159,667	\$0.22	8,175
Escrow shares issued on conversion of performance rights		100,000	\$0.00	28
Transaction costs associated with Non-Renounceable Rights Issue	27 February 2023	-	\$0.00	(249)
Balance	30 June 2023	388,614,865		177,368

Note 12. Issued capital (continued)

Movements in share capital

Details	Date	Shares	Issue price	\$'000
Balance	1 July 2023	388,614,865		177,368
Shares issued under non-renounceable rights issue	1 August 2023	37,139,102	\$0.12	4,457
Shares issued to CSIRO for payment of services	28 August 2023	520,118	\$0.16	82
Shares issued under the Convertible Securities Agreement	21 November 2023	985,286	\$0.11	108
Shares issued under the Convertible Securities Agreement	22 November 2023	3,333,333	\$0.11	367
Shares issued under the Convertible Securities Agreement	22 November 2023	2,662,398	\$0.11	293
Transaction costs associated with issuing equity		-	\$0.00	(291)
Shares issued under conversion of Convertible Notes	2 February 2024	2,099,905	\$0.04	78
Shares issued under conversion of Convertible Notes	23 February 2024	2,397,104	\$0.03	80
Shares issued under conversion of Convertible Notes	11 June 2024	8,094,031	\$0.03	357
Balance	30 June 2024	<u>445,846,142</u>		<u>182,899</u>

Ordinary shares

Ordinary shares participate in dividends and the proceeds on winding up of the Group in proportion to the number of shares held. At shareholders' meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

Shares in escrow

During the year nil shares (2023: 100,000 shares) were issued on conversion of performance rights. Shares are unquoted and will be held in escrow until the earlier of the employee leaving the company or 2 years after the date of issue.

Note 13. Reserves

	30 June 2024 \$'000	2023 \$'000
Foreign currency reserve	(24)	(137)
Share based payments reserve	438	260
Convertible note reserve	80	-
	<u>494</u>	<u>123</u>

For share-based payments received by employees and Key Management Personnel of the Group, fair value is measured by reference to the fair value of the equity instruments at their grant date, being the date that both the recipient and the Group have a shared understanding of the terms and conditions connected to the share-based payment. Any market-based vesting conditions are incorporated into the valuation of the share-based payment arrangement as at the grant date. Share-based payments with non-market based performance conditions vest according to the pro-rata achievement of those conditions. Share-based payments with non-performance-based conditions are valued using the Black-Scholes model and payments with market-based performance conditions are valued using a binomial model which incorporates from both the performance rights arrangement and market data that existed at grant date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 13. Reserves (continued)

Employee remuneration costs incurred in respect of performance rights for the year ended 30 June 2024 is \$0.18 million (2023: \$0.19 million).

Performance rights over ordinary shares

No Performance Rights were issued in the year to 30 June 2024 (2023: 2,138,422).

The fair value of performance rights still vesting has been calculated on the basis of the Black-Scholes model using the following key assumptions:

Grant of performance rights		Number of performance rights	Spot price on issue date	Risk free rate %	Expiry date	Volatility rate	Fair value 000's
Performance Rights 2023 Series	10/02/2023	982,149	0.18	3.41%	10/02/2026	71.23%	84
Performance Rights 2021 Series	21/12/2021	448,203	0.28	0.96%	21/12/2024	85.73%	107
		<u>1,430,352</u>	<u>0.46</u>				<u>191</u>

The weighted average remaining contractual life of performance rights outstanding at 30 June 2024 was 1.1 years (2022: 2.0 years).

Given a nil exercise price of the Performance Rights, adopting different volatility assumptions does not have an impact on the Performance Rights' valuation.

Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
21/12/2021	21/12/2024	\$0.00	792,436	-	-	(344,233)	448,203
10/02/2023	10/02/2026	\$0.00	<u>2,138,422</u>	-	-	<u>(1,156,273)</u>	<u>982,149</u>
			<u>2,930,858</u>	-	-	<u>(1,500,506)</u>	<u>1,430,352</u>
Weighted average exercise price			\$0.00	\$0.00	\$0.00	\$0.00	\$0.00

Options over ordinary shares

On 9 February 2023, 4,500,000 options over fully paid ordinary shares were issued to Mr Peter Koetsier under the Employee Share Option Plan. The options would vest over three (3) years in equal tranches of 1.5 million options with the first tranche vesting 12 months after the issue date. The exercise price for each tranche is as below:

- Tranche 1 - 45 cents per share
- Tranche 2 - 60 cents per share
- Tranche 3 - 75 cents per share

Note 13. Reserves (continued)

Mr Peter Koetsier resigned from his position as CEO on 21 March 2024 and as such 3,000,000 of the options granted in the prior year have been forfeit.

On 5 April 2023 1,620,000 options over fully paid ordinary shares were issued to employees of the Company. The options will vest over 3 years in equal tranches of 20,000 with the tranche vesting 12 months after the issue date. The exercise price for each tranche is 22 cents per share. During the financial year, 460,000 options vested and 440,000 options were forfeit by virtue of staff leaving the Company.

On 27 November 2023, as per the Convertible Note agreement, along with the entitlement for conversion of Notes into fully paid ordinary shares, the Noteholders were issued 6,735,867 options over fully paid ordinary shares, which have not been exercised as at 30 June 2024. An additional 6,735,867 options were issued to the broker for their services, which have not been exercised as at 30 June 2024.

On 1 August 2023, 18,569,840 options were issued as free attaching options as an incentive to attract investors to a non-renounceable rights issue. As no good or service had been provided, no charge has been recognised in the share-based payments vesting charge during the year to 30 June 2024.

Set out below is a table containing options outstanding at balance date:

Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
09/02/2023	09/02/2028	\$0.45	1,500,000	-	-	-	1,500,000
09/02/2023	09/02/2028	\$0.60	1,500,000	-	-	(1,500,000)	-
09/02/2023	09/02/2028	\$0.75	1,500,000	-	-	(1,500,000)	-
04/04/2023	04/04/2028	\$0.22	1,620,000	-	-	(440,000)	1,180,000
27/11/2023	24/04/2026	\$0.23	-	6,735,867	-	-	6,735,867
27/11/2023	24/04/2026	\$0.23	-	6,735,867	-	-	6,735,867
01/08/2023	01/02/2025	\$0.22	-	18,569,840	-	-	18,569,840
			6,120,000	32,041,574	-	(3,440,000)	34,721,574
Weighted average exercise price			\$0.50	\$0.22	\$0.00	\$0.62	\$0.23

Grant of options	Number of options	Spot price at grant of option	Options exercise price	Risk free rate	Options expiry date	Options vesting date	Volatility	Fair value
				%			%	\$
Tranche 1	1,500,000	0.18	0.45	3.41%	09/02/2028	10/02/2024	71.23%	0.07
Tranche 4 (a)	460,000	0.15	0.22	2.98%	04/04/2028	04/04/2024	76.00%	0.08
Tranche 4 (b)	360,000	0.15	0.22	2.98%	04/04/2028	04/04/2025	76.00%	0.08
Tranche 4 (c)	360,000	0.15	0.22	2.98%	04/04/2028	04/04/2026	76.00%	0.08
Convertible note - broker options	6,735,867	0.11	0.23	4.16%	27/05/2025	27/11/2023	61.90%	0.01
Convertible note - noteholder options	6,735,867	0.11	0.23	4.16%	27/05/2025	27/11/2023	61.90%	0.01

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 13. Reserves (continued)

The total expense of share-based payments recognised in the statement of profit or loss and other comprehensive income amounted to \$0.18 million. The remaining fair value will be expensed in subsequent years in accordance with the specific service conditions of the rights.

During the year nil shares were issued on conversion of options.

The 6.74 million noteholder options are included in the convertible note reserve.

Note 14. Loss per share

	30 June 2024 \$'000	30 June 2023 \$'000
Loss after income tax	(51,242)	(33,790)
	Number	Number
Weighted average number of ordinary shares used in calculating basic loss per share	429,385,901	372,251,723
Weighted average number of ordinary shares used in calculating diluted loss per share	429,385,901	372,251,723
	Cents	Cents
Basic loss per share	(11.93)	(9.08)
Diluted loss per share	(11.93)	(9.08)

Performance rights and options have not been included in the weighted average number of ordinary shares as the Group presently has accumulated losses and no certainty of future profits to offset those losses.

The potentially dilutive effects of any contingently issuable ordinary shares have not been considered in the diluted loss per share calculation because the Group is in a loss-making position and such an effect would be anti-dilutive.

Note 15. Key Management Personnel disclosures

Directors

The following persons were Directors of Cann Group Limited during the financial year:

Mr Allan McCallum (retired 28 August 2023)	Chairman
Dr Julian Chick (appointed 28 August 2023)	Chairman
Mr Douglas Rathbone	Non-executive Director
Ms Jenni Pilcher (appointed as interim CEO effective 21 March 2024, CEO & Managing Director effective 1 April 2024)	Non-executive Director
Mr Robert Barnes	Non-executive Director

Note 15. Key Management Personnel disclosures (continued)

Other Key Management Personnel

The following persons also had the authority and responsibility for planning, directing and controlling the major activities of the Group, directly or indirectly, during the financial year:

Ms Jenni Pilcher	Interim Chief Executive Officer (appointed effective 21 March 2024)
Mr Tony Di Pietro	Chief Financial Officer (appointed 15 April 2024)
Mr Peter Koetsier	Chief Executive Officer (resigned 21 March 2024)
Ms Deborah Ambrosini	Chief Financial Officer and Company Secretary (resigned 22 December 2023)

Compensation

The aggregate compensation paid to Directors and other members of key management personnel of the Group is set out below:

	30 June 2024 \$	30 June 2023 \$
Short-term employee benefits	1,038,940	1,264,902
Post-employment benefits	85,910	112,669
Share-based payments	80,161	110,497
	<u>1,205,011</u>	<u>1,488,068</u>

Note 16. Remuneration of auditors

	30 June 2024 \$	30 June 2023 \$
(i) Audit and other assurance services - William Buck		
Audit and review of financial statements	<u>137,975</u>	<u>83,500</u>
(ii) Non-assurance services - William Buck		
Tax compliance services and other regulatory compliance	<u>62,864</u>	<u>24,729</u>
Total remuneration	<u>200,839</u>	<u>108,229</u>

Note 17. Related party transactions

Parent entity

Cann Group Limited is the parent entity.

Key Management Personnel

Disclosures relating to Key Management Personnel are set out in note 15 and the remuneration report included in the Directors' report.

Transactions with related parties

Transactions between the Group and related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

The Company had a short-term lease for corporate office space on normal commercial terms with Rathbone Wine Group. The lease was exited during the year to 30 June 2024. The building is owned by REI Property Sub Trust 2. Rathbone Wine Group are the head tenant. An amount of \$0.10 million (2023: \$0.11 million) was paid during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 18. Contingent liabilities and commitments

On 15 February 2024, a customer of the Group, Rua Biosciences Limited, commenced legal proceedings against Cannoperations Pty Ltd. This related to a dispute between the parties in respect of a manufacturing and supply agreement. The Group is confident that it will be able to defend against the claim and negotiations are ongoing in relation to a new supply agreement. The quantum of any potential legal costs associated with the dispute are not readily determinable.

Note 19. Events after the reporting period

On 14 August 2024, Mr Tony Di Pietro resigned from his position as CFO and joint Company Secretary.

Note 20. Reconciliation of loss after income tax to net cash used in operating activities

	30 June 2024 \$'000	30 June 2023 \$'000
Loss after income tax expense for the year	(51,242)	(33,790)
Adjustments for:		
Impairment of inventory	754	-
Impairment of property, plant and equipment	20,126	-
Loss/(Gain) on sale of fixed assets	(716)	(1,041)
Equity settled transactions	(171)	-
Vesting of performance rights	117	192
Interest capitalised into convertible notes	1,853	-
Decrease in the value of financial assets	64	603
Depreciation, Amortisation and loss on sale of assets	11,037	11,962
Impairment of goodwill	-	671
Impairment of investment	433	-
Interest and other finance costs	271	-
Change in operating assets and liabilities:		
Decrease/(increase) in trade and other receivables	2,276	(2,100)
Decrease/(increase) in inventories	1,254	(463)
Decrease/(increase) in prepayments	1,758	(740)
(Decrease)/increase in trade and other payables	(2,999)	1,871
Net cash used in operating activities	(15,185)	(22,835)

Note 21. Financial instruments

Financial risk management objectives

The Group's material financial instruments consist of deposits with banks, its accounts payable, its borrowings and convertible notes. The Board is responsible for managing the Group's significant financial risks, which are its liquidity risk, which it does through regularly reviewing rolling cash flow forecasts and examining its levels of available working capital against such forecasts and its interest rate risk exposure.

Market risk

The Group does not believe it has any material market risk of loss arising from adverse movements of market instruments including foreign exchange and interest rates.

Note 21. Financial instruments (continued)

Interest rate risk

The Group has, as of the reporting date, a minimal direct exposure to interest rate risk, which is the risk that a financial instrument's market value will fluctuate as a result of changes in market interest rates. The effective weighted average interest rates on classes of financial assets and financial liabilities are as follows:

30 June 2024	Weighted average effective interest rate %	Floating interest rate \$'000	1 year or less \$'000	1 to 5 years \$'000	over 5 years \$'000	Non- interest bearing \$'000	Total \$'000
Assets:							
Cash and bank balances	-	-	-	-	-	1,640	1,640
Financial assets at fair value	-	-	-	-	-	31	31
Trade and other receivables	-	-	-	-	-	4,084	4,084
Prepayments	-	-	-	-	-	347	347
Total financial assets		-	-	-	-	6,102	6,102
Liabilities:							
Trade and other creditors	0.23	-	(35)	-	-	(5,402)	(5,437)
Chattel mortgages	6.75	-	(130)	(421)	-	-	(551)
Borrowings	6.66	-	(69,495)	-	-	-	(69,495)
Total financial liabilities		-	(69,660)	(421)	-	(5,402)	(75,483)
Net financial assets (liabilities)		-	(69,660)	(421)	-	700	(69,381)

30 June 2023	Weighted average effective interest rate %	Floating interest rate \$'000	1 year or less \$'000	1 to 5 years \$'000	over 5 years \$'000	Non- interest bearing \$'000	Total \$'000
Assets:							
Cash and bank balances	-	-	-	-	-	765	765
Financial assets at fair value	-	-	-	-	-	139	139
Trade and other receivables	-	-	-	-	-	6,157	6,157
Prepayments	-	-	-	-	-	2,413	2,413
		-	-	-	-	9,474	9,474
Liabilities:							
Trade and other creditors	3.39	-	(726)	-	-	(7,127)	(7,853)
Chattel mortgages	-	-	(69)	(164)	-	-	(233)
Borrowings	6.27	-	(15,220)	(45,511)	-	-	(60,731)
Total financial liabilities		-	(16,015)	(45,675)	-	(7,127)	(68,817)
Net financial assets (liabilities)		-	(16,015)	(45,675)	-	2,347	(59,343)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 21. Financial instruments (continued)

The Company has a \$49.40 million construction facility with the National Australia Bank which has been used to fund the construction of the new state-of-the-art large scale manufacturing facility near Mildura. The loan was restructured in April 2022 after the facility was commissioned. Base interest rate is the Bank Bill Swap Bid Rate. The drawn down margin rate is 2.30% pa and the facility fee is 0.35% pa. Amortisation of the loan commenced 31 May 2024 on a quarterly basis for a period of 10 years. The facility had been fully drawn down to an amount of \$49.40 million at 30 June 2024. Repayment terms have been extended to 31 May 2025.

In April 2022 Cann executed documentation to enter into a \$15.60 million working capital facility with the National Australia Bank. The working capital facility has been used by Cann to support the scale up of the business and the next phase of its long-term growth strategy. The facility terms were negotiated for an initial period with the first review held on 30 November 2022. Thereafter it will be reviewed on a rolling 12 month period. Key terms include a drawn down rate of 2.00% pa and a facility fee of 0.35% per annum. The Working Capital facility is cross-collateralised and co-defaulting with the Construction facility. As at 30 June 2024 the facility had been drawn down by \$14.95 million leaving a balance of \$0.61 million to be drawn down. Repayment terms have been extended to 31 May 2025.

On 7 May 2024 Cann executed a facility agreement with a prominent Australian private credit fund to provide a secured debt facility of \$5.00 million. The full \$5.00 million was drawn in one lump sum. The principal is subject to 15% interest per annum, payable monthly in arrears and the facility has a maturity date of 7 May 2025. The facility is secured over Cann's Mildura property as a second mortgage behind the NAB. In addition to the monthly interest, the Facility has upfront fees of 3% of the principal, \$0.07 million work fee and a 1% broker fee together with customary legal costs.

For the Group the borrowings outstanding, totalling \$70.05 million (2023: \$60.70 million), are principal and interest payment loans. Quarterly cash outlays of approximately \$1.00 million (2023: \$1.00 million) per quarter are required to service the interest payments, although the Construction and Working Capital facilities have been extended to 31 May 2025. An official increase/decrease in interest rates of 0.5 percent would have an adverse/favourable effect on loss before tax of \$0.31 million (2023: \$0.47 million) per annum. The percentage change is based on the expected volatility of interest rates using market data and analysts' forecasts.

Credit risk

The Group does not believe it has any material risk from a counterparty defaulting on its contractual obligations or commitments resulting in financial loss as such risk is managed by implementing a policy of only dealing with creditworthy counterparties in accordance with established credit limits for all future transactions with customers. The Group also reviews the overall financial strength of its customers by monitoring publicly available credit information.

The Directors have assessed that the fair values of the Group's financial assets and liabilities reasonably approximate their carrying values, as represented in these financial statements.

Liquidity risk

Liquidity risk arises from the possibility that the Group may encounter difficulty in meeting its obligations for its financial liabilities, which at 30 June 2024 were primarily accounts payable with due terms of between 0-45 days and working capital facility with the National Australia Bank.

Note 21. Financial instruments (continued)

Foreign currency risk

Subsequent to the acquisition of Satipharm, the Group is exposed to fluctuations in foreign currencies arising from the sale and purchase of goods and services in currencies other than the group's measurement currency. The management managed the foreign currency transactions on a monthly basis to avoid the fluctuation on the exchange rate, while the Group does not have any material foreign currency risk exposure. Where exposures do arise, forward foreign exchange contracts will be applied.

Note 22. Capital management

The Board of Directors are charged with determining the optimal mix of debt and equity which is suitable for the needs of the Group. For the year ended 30 June 2024 the Group held a \$50.00 million loan facility available for the purpose of funding the construction of the Mildura Facility. As at 30 June 2024 this was drawn down to the amount of \$49.40 million. The Board considers it appropriate that the construction of the Mildura Facility be sourced through a mix of equity and long-term debt financing.

The Group also had access to a \$15.00 million working capital facility at the end of the financial year which was drawn to \$14.95 million. The working capital facility will be used by Cann to support the scale up of the business and the next phase of its long-term growth strategy.

The Group's treasury function reports to the Board monthly with forecast cash flow information that enables the Company to conduct its capital raising activities in an orderly fashion at a dilutive cost to existing shareholders that is appropriate and reasonable.

Note 23. Parent entity information

Set out below is the supplementary information about the parent entity.

Statement of profit or loss and other comprehensive income Parent

	Parent	
	30 June 2024	30 June 2023
	\$'000	\$'000
Loss after income tax	(11,915)	(6,457)
Total comprehensive loss	(11,915)	(6,457)

Statement of financial position

	Parent	
	30 June 2024	30 June 2023
	\$'000	\$'000
Total current assets	3,886	5,357
Total assets	202,156	198,859
Total current liabilities	73,147	16,421
Total liabilities	73,295	63,199
Equity		
Issued capital	182,898	177,367
Share based payments reserve	516	260
Accumulated losses	(54,553)	(41,967)
Total equity	128,861	135,660

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 23. Parent entity information (continued)

Material accounting policy information

The accounting policies of the parent entity are consistent with those of the Group, as disclosed in note 2, except for the following:

- Investments in subsidiaries are accounted for at cost, less any impairment, in the parent entity.
- Investments in associates are accounted for at cost, less any impairment, in the parent entity.
- Dividends received from subsidiaries are recognised as other income by the parent entity and its receipt may be an indicator of an impairment of the investment.

Note 24. Convertible notes

	30 June 2024 \$'000	30 June 2023 \$'000
Carrying amount of convertible notes		
Current liabilities		
Convertible note – host liability at amortised cost	2,359	-
Convertible note – fair value of embedded derivative	61	-
Carrying amount at 30 June 2024	2,420	-
	30 June 2024 \$'000	30 June 2023 \$'000
Current liabilities		
Convertible notes	2,420	-
Reconciliation of movements in convertible notes:		
	30 June 2024 \$'000	30 Jun 2023 \$'000
Proceeds received on issue	2,000	-
Cost of issuance of convertible notes	(351)	-
Equity instruments issued	(555)	-
Amortisation	1,841	-
Conversion into equity	(515)	-
	2,420	-

On 21 November 2023, the Company entered into a funding arrangement through an unsecured Convertible Note with Obsidian Global GP, LLC ('Noteholder'). The funding arrangement has an aggregate limit of up to \$15.00 million.

On 27 November 2023, the Company issued 1,322,200 Convertible Notes to Obsidian Global GP, LLC for proceeds of US\$1 per convertible note, and a face value of US\$1.15 per convertible note as at 27 November 2023, in respect of which the Company received \$2.00 million gross proceeds at the time of issue.

Note 24. Convertible notes (continued)

The facility has a limit of \$15.00 million and maturity date of 18 months after the execution date, being 27 May 2025. As at 31 December 2023, the facility has an undrawn facility amount of \$13.00 million with subsequent draw down tranches being permitted 90 days immediately after the previous tranche drawn and the maximum amount of each subsequent purchase to not exceed \$3.00 million. Any subsequent tranche draw down up to a maximum of four (4) tranches is to be agreed by mutual agreement between Cann Group and the Noteholder, subject to Cann Group maintaining a market capitalisation of at least \$35.00 million.

Upon issue of the Convertible Notes (Notes), the Company also issued 985,286 Commitment shares and 3,333,333 Placement shares for the purpose of incentivising the Noteholder into the transaction. The Commitment shares issued to the note holder were assessed at a fair value of \$0.10 million and the Placement shares were assessed at a fair value of \$0.40 million.

As per the Convertible Note agreement, along with the entitlement for conversion of Notes into fully paid ordinary shares, the Noteholder was also issued 6,735,867 share options over fully paid ordinary shares, which are yet to be exercised as at 30 June 2024. The arrangement was valued using the Binomial model, with the fair value on grant date being \$0.08 million. The options issued over fully paid ordinary shares had a \$0.225 exercise price and expire 24 April 2026.

The 6.74 million noteholder options are included in the convertible note reserve.

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

Grant Date	Expiry Date	Share Price at Grant Date	Exercise Price	Expected Volatility %	Dividend Yield %	Risk-Free Interest Rate %	Fair Value at Grant Date
27/11/2023	27/05/2025	\$0.110	\$0.225	61.900%	-	4.155%	\$0.012

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

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

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

As a result of the above, a conversion option exists which has resulted in an embedded derivative being recognised on initial recognition of the convertible notes in the financial statements of \$0, due to the convertible feature being considerably out of the money at execution date. There is an FX embedded derivative on initial recognition of \$0.06 million, on account of the face value being US\$1.15, and the drawdown amount being \$2.00 million was recognised. The valuation of the embedded derivatives at initial recognition were performed by an external valuation expert and subsequently on balance date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 24. Convertible notes (continued)

The convertible notes are unsecured.

Further to the above, should Cann Group undertake a fund raising in excess of \$2.50 million prior to the maturity date, the Noteholder may elect to require the Company to apply up to 20% of those funds to redeem Convertible Notes on issue.

Further to the above, 6,735,867 share options were issued to the lead broker, EverBlu Capital, as payment for their services in arrangement of the convertible note. The fair value of 6,735,867 options issued to the lead broker was \$0.08 million. This cost was recognised in the share-based payment reserve. See note 13 for further details in respect of Share Based Payments. Further to this, the Group incurred the following:

- a cash fee of \$0.12 million paid to the lead broker, being 6% of the initial \$2.00 million drawn down, and
- 2,662,938 ordinary shares were issued to the lead broker, EverBlu Capital, for a fair value of \$0.29 million as payment for their services.

Valuation methodology applied in valuing Convertible Notes

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

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

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

The Directors of the Company appointed an external valuation expert to perform a fair value valuation on the convertible notes and the related embedded derivatives at inception.

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

As at 30 June 2024 the group has no liabilities where the fair value measurement is based on quoted prices in active markets (Level 1 hierarchy) or significant unobservable inputs (Level 2 hierarchy). As at 30 June 2024 the fair value of the embedded derivative is measured using significant unobservable inputs (Level 3 hierarchy). There has been no change in the Group's valuation process, valuation techniques and types of inputs used in the fair value measurement at the end of the reporting period in comparison to the methodology upon inception. There have been no transfers between levels of fair value hierarchy during the period ended 30 June 2024.

Refer to note 25 for further information on financial instruments including significant unobservable inputs (Level 3 hierarchy).

Note 24. Convertible notes (continued)

Event of Default

On 1 March 2024 ("Default Date") the Group triggered an Event of Default due to its suspension from trading on the ASX. This triggered an increase in the Notes face value by 10% (US\$1.15 to US\$1.265), default conversion price and default interest clause of the facility. The additional interest to reflect the higher discount rate has been adjusted for in the financial statements.

Following the Event of Default, interest shall be payable on the convertible securities at a rate of 15% per annum which shall accrue daily and shall be compounded monthly from the date of the Event of Default until the Company discharges the amount outstanding in full.

Additionally following the Event of Default, the conversion price will change to the lesser of the premium conversion price and 80% of the lowest daily VWAP during the 10 actual days prior to the conversion date.

Due to the fact that the convertible note is now repayable upon demand, management have made an assessment to fully amortise the liability as at 30 June 2024, to better reflect the possible immediate repayment that could be called upon, subsequent to the default event.

Conversions

As at 30 June 2024, 330,000 notes were redeemed for the issue of 12,591,040 ordinary shares as detailed in note 12.

Note 25. Fair value measurement

Fair value hierarchy

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

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

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

Level 3: Unobservable inputs for the asset or liability.

2024	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Assets				
Listed shares	31	-	-	31
Total assets	31	-	-	31
Liabilities				
Convertible notes - embedded derivative	-	-	61	61
Total liabilities	-	-	61	61

2023	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Assets				
Listed shares	94	-	-	94
Unlisted shares	-	45	-	45
Total assets	94	45	-	139

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 25. Fair value measurement (continued)

During the period from inception in November 2023 through to 30 June 2024, the fair value of the convertible note derivatives was unchanged. The fair value of the embedded derivative was \$0.061 million as at 30 June 2024.

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

The sensitivity analysis undertaken on the unobservable inputs identified no material impact to the valuation at 30 June 2024.

There were no transfers between levels during the financial year.

The carrying amounts of trade and other receivables and trade and other payables are assumed to approximate their fair values due to their short-term nature.

The fair value of financial liabilities is estimated by discounting the remaining contractual maturities at the current market interest rate that is available for similar financial liabilities.

Level 3 assets and liabilities

Accounting policy for fair value measurement

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

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

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

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

CONSOLIDATED ENTITY DISCLOSURE STATEMENT

Entity name	Entity type	Place formed / Country of incorporation	Ownership interest %	Tax residency
Cann Group Limited (ACN 603 949 739)	Body corporate	Australia	-	Australia
Cannproducts Pty Ltd (ACN 600 887 189)	Body corporate	Australia	100.00%	Australia
Cannoperations Pty Ltd (ACN 603 323 226)	Body corporate	Australia	100.00%	Australia
Cann IP Pty Ltd (ACN 169 764 407)	Body corporate	Australia	100.00%	Australia
Botanitech Pty Ltd (ACN 604 834 488)	Body corporate	Australia	100.00%	Australia
Satipham Europe Ltd	Body corporate	Ireland	100.00%	Ireland
Satipham Limited	Body corporate	United Kingdom	100.00%	United Kingdom
Satipham AG	Body corporate	Switzerland	100.00%	Switzerland
Satipham Australia Pty Ltd	Body corporate	Australia	100.00%	Australia
Satipham Canada Limited	Body corporate	Canada	100.00%	Canada
Phytotech Therapeutics Ltd	Body corporate	Israel	100.00%	Israel

Basis of preparation

This Consolidated entity disclosure statement (CEDS) has been prepared in accordance with the Corporations Act 2001 and includes information for each entity that was part of the Group as at the end of the financial year in accordance with AASB 10 Consolidated Financial Statements.

Determination of tax residency

Section 295 (3A)(vi) of the Corporation Act 2001 defines tax residency as having the meaning in the Income Tax Assessment Act 1997. The determination of tax residency involves judgement as there are different interpretations that could be adopted, and which could give rise to a different conclusion on residency.

In determining tax residency, the Group has applied the following interpretations:

Australian tax residency

The Group has applied current legislation and judicial precedent, including having regard to the Tax Commissioner's public guidance in Tax Ruling TR 2018/5.

Foreign tax residency

Where necessary, the Group has used independent tax advisers in foreign jurisdictions to assist in its determination of tax residency to ensure applicable foreign tax legislation has been complied with (see section 295(3A)(vii) of the Corporations Act 2001).

Partnerships and Trusts

None of the entities noted above were trustees of trusts within the Group, partners in a partnership within the Group or participants in a joint venture within the Group.

DIRECTORS' DECLARATION

30 JUNE 2024

In the Directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 2 to the financial statements;
- the attached financial statements and notes give a true and fair view of the Group's financial position as at 30 June 2024 and of its performance for the financial year ended on that date
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and
- the information disclosed in the attached consolidated entity disclosure statement is true and correct.

The Directors have been given the declarations required by section 295A of the Corporations Act 2001.

Signed in accordance with a resolution of Directors made pursuant to section 295(5)(a) of the Corporations Act 2001.

On behalf of the Directors



Julian Chick
Chairman

30 August 2024

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF CANN GROUP LIMITED

WilliamBuck
ACCOUNTANTS & ADVISORS

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

Report on the audit of the financial report

Our opinion on the financial report

In our opinion, the accompanying financial report of Cann Group Limited (the Company) and its controlled entities (together, the Group) is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the Group's financial position as at 30 June 2024 and of its financial performance for the year then ended; and
- complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

What was audited?

We have audited the financial report of the Group, which comprises:

- the consolidated statement of financial position as at 30 June 2024,
- the consolidated statement of profit or loss and other comprehensive income for the year then ended,
- the consolidated statement of changes in equity for the year then ended,
- the consolidated statement of cash flows for the year then ended,
- notes to the financial statements, including material accounting policy information,
- the consolidated entity disclosure statement, and
- the directors' declaration.

Basis for opinion

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 are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional & 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.

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

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INDEPENDENT AUDITOR'S REPORT

(CONTINUED)



Material uncertainty related to going concern

We draw attention to Note 2 in the financial report, which indicates that the Group incurred a net loss of \$51.24 million for the year ended 30 June 2024, a working capital deficiency of \$61.99m as at 30 June 2024, and net operating cash outflows of \$15.19 million for the year ended 30 June 2024. As stated in Note 2, these events or conditions, along with other matters as set forth in Note 2, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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 period. 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 opinion on these matters. In addition to the matter described in the *Material uncertainty related to going concern* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

1. Test of impairment of property, plant and equipment	Area of focus (refer also to notes 2, 3 & 9)	How our audit addressed the key audit matter
	<p>As at 30 June 2024 the Group recorded pre-impaired carrying values in its statement of financial position which were less than its market capitalization.</p> <p>Consequently, at this date the directors assessed this factor, together with the loss result for its one cash-generating unit to be an indicator of impairment.</p> <p>The directors tested for this impairment through a value-in-use discounted cashflow methodology, which considered the results performed by an external valuation of the assets on a going concern basis commissioned by the Group's banker performed as at that date over its land and buildings and plant and equipment.</p> <p>The directors considered that this valuation approach was the highest and best use valuation approach for a non-financial asset, as permitted under AASB 13.</p> <p>The results of the bank valuation supported the impairment charge set out in the statement of financial performance and</p>	<p>Our audit procedures included:</p> <ul style="list-style-type: none">— Examining the terms of reference for the bank valuation commissioned by the bank for its appropriateness for impairment testing for the purposes of these financial statements;— Examining the skill, experience and independence of the valuer as an appropriate expert for providing a valuation that meets the requirements of AASB 13;— Examining the fair valuation report and the assumptions and inputs set out by the valuer in deriving their fair valuation assessment, including the appropriateness of the discount rate applied in the model;— Retesting the model and assumptions raised by the valuer, including the appropriateness of the inputs applied in the underlying discounted cashflow model, ensuring that the valuation approach was congruent with the requirements for applying a

	<p>reported values recorded in the statement of financial position as at 30 June 2024.</p>	<p>discounted cash flow methodology as set out in AASB 136;</p> <ul style="list-style-type: none"> — Stress-testing the model applied by the valuer for changes in key non-market inputs applied in the impairment model; and — Cross-referencing the results of the valuation report to reported results and disclosures in the financial report.
<p>2. Valuation of convertible debt</p>	<p>Area of focus (refer also to notes 2 & 24)</p> <p>The Group has issued debt which features a variable conversion clause. The directors have assessed that this variable conversion clause triggers the requirement under the Group's accounting policies to separately fair value an embedded derivative on the statement of financial position.</p> <p>This embedded derivative has been held at fair value on the statement of financial position from the date of issue of the debt through to 30 June 2024 (net of partial repayments through equity of the debt during the period). This embedded derivative was fair valued by an independent specialist.</p> <p>The directors have also considered the amortization of costs of entering into the debt agreement and concluded that a default of the debt agreement occurred during the financial year upon the suspension of the Company's securities on the Australian Securities Exchange (ASX). Accordingly, all such costs of entering into the debt were fully amortized as at that date of default.</p>	<p>How our audit addressed the key audit matter</p> <p>Our audit procedures included:</p> <ul style="list-style-type: none"> — Examining the underlying debt agreement for its salient clauses material to its accounting in the financial statements, including its conversion feature, events of default and attaching debt costs; — Reviewing the bona fides of the independent specialist fair valuer of the embedded derivative, including appraising their independence, experience and skill relevant to the fair valuation of the embedded derivative; — Determining whether the event of default in the debt agreement constituted a significant modification of the debt agreement, including the full amortization of costs of debt agreement as at that date; and — Recomputing and cross-referencing the valuation and disclosures of the debt agreement to the results presented in the financial report.

INDEPENDENT AUDITOR'S REPORT

(CONTINUED)

WilliamBuck

ACCOUNTANTS & ADVISORS

3. Inventory	Area of focus (refer also to notes 2, 3 & 8)	How our audit addressed the key audit matter
	<p>The Group's inventory primary consists of biomass and finished goods which are held at the lower of cost or net realisable value.</p> <p>The valuation of inventory involves judgement by management in particular when determining the value per gram of biomass. In addition, consideration is given to directly attributable costs which can be capitalised into the cost of inventory.</p> <p>As such this matter has been determined as a key area of focus for our audit.</p>	<p>Our audit procedures included:</p> <ul style="list-style-type: none">— Performing inventory stock verification procedures in respect of inventory held at the Mildura facility;— Reviewing inventory confirmations in relation to inventory held with third parties;— Evaluating management's judgments and assumptions used in calculation cost per gram of biomass;— Verifying that the carrying value of inventory has been calculated appropriately including verification of third-party manufacturing costs to supporting documentation; and— Evaluating management's judgements and assumptions used in determining the inventory write down recorded during the year.— We have also assessed the adequacy of disclosures in relation to inventory in the financial report.

Other information

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2024, 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.

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 the directors for the financial report

The directors of the Company are responsible for the preparation of:

- the financial report (other than the consolidated entity disclosure statement) that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001*; and
- the consolidated entity disclosure statement that is true and correct in accordance with the *Corporations Act 2001*, and

for such internal control as the directors determine is necessary to enable the preparation of:

- the financial report (other than the consolidated entity disclosure statement) that gives a true and fair view and is free from material misstatement, whether due to fraud or error; and
- the consolidated entity disclosure statement that is true and correct and is free of misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group 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 Group 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 the 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at:

https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.pdf

This description forms part of our auditor's report.

INDEPENDENT AUDITOR'S REPORT

(CONTINUED)



Report on the Remuneration Report

Our opinion on the Remuneration Report

In our opinion, the Remuneration Report of Cann Group Limited, for the year ended 30 June 2024, complies with section 300A of the *Corporations Act 2001*.

What was audited?

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2024.

Responsibilities

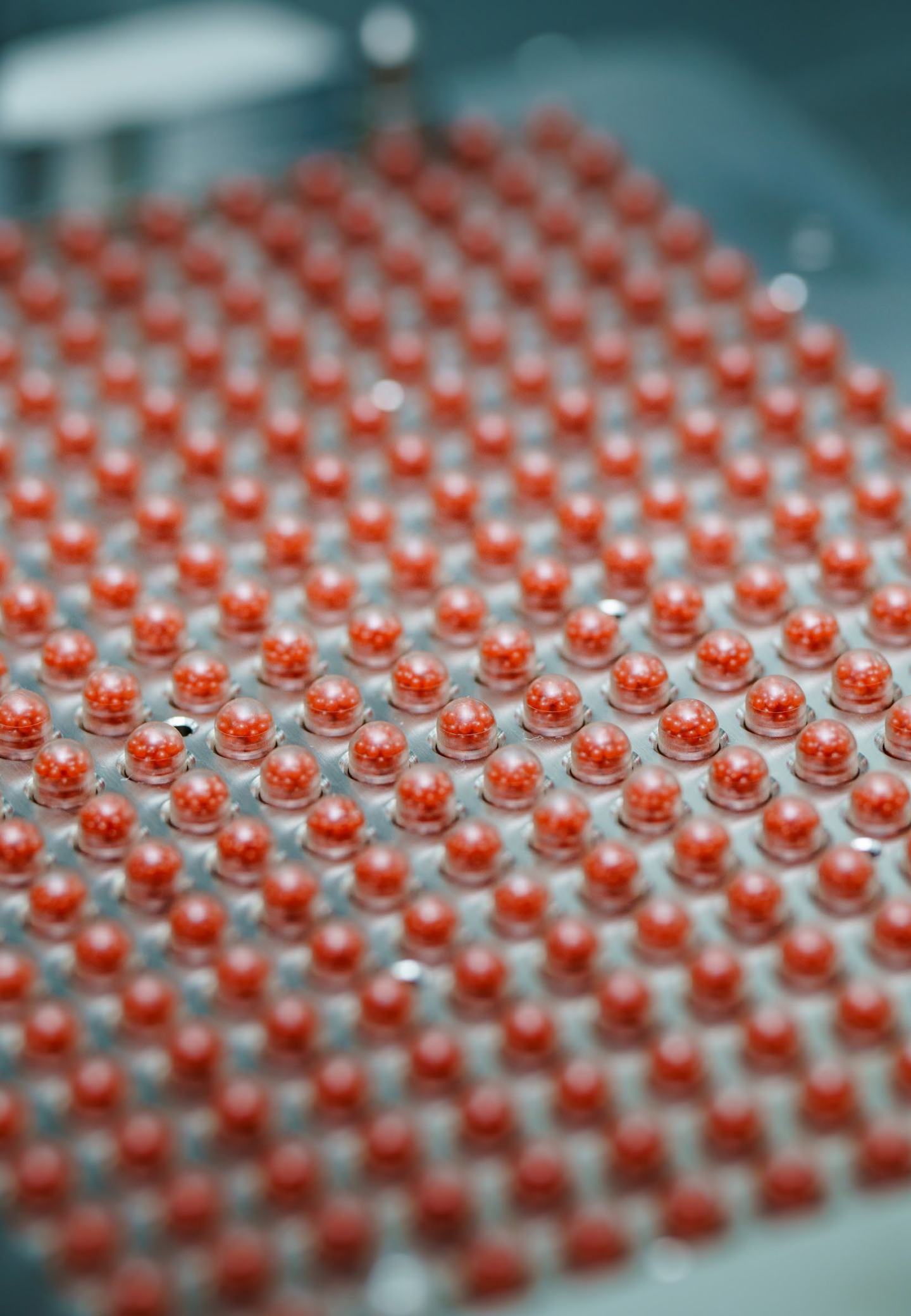
The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian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



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



N. S. Benbow
Director
Melbourne, 30 August 2024



CORPORATE GOVERNANCE STATEMENT

For the year ended 30 June 2024

The Company's directors and management are committed to conducting the business of the Group in accordance with the Group's core values: trust and accountability; leading edge behaviour; and acting in the best interests of our people and community. This includes conducting ourselves in an ethical manner and in accordance with the highest standards of corporate governance. The Group has adopted and substantially complies with the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (4th edition) (Recommendations), as is appropriate for the size and nature of the Group's operations.

For the 2024 financial year, the Group has prepared a corporate governance statement that discloses the extent to which the Group has followed the Recommendations, identifies any Recommendations that have not been followed, and the reasons for the Group not doing so (Corporate Governance Statement).

In accordance with ASX Listing Rules 4.7.4 and 4.10.3, the Corporate Governance Statement will be available for review on the Company's website (www.canngrouponlimited.com), and, together with an Appendix 4G, will be lodged with the ASX at the same time that this annual report is lodged with the ASX. The Appendix 4G will provide information on each Recommendation that needs to be reported against by the Company and provide shareholders with guidance on where the relevant governance disclosures are located. The Company's corporate governance documents, including policies and charters, are all available on the Company's website www.canngrouponlimited.com.

SHAREHOLDER INFORMATION

Equity security holders

As at 2 September 2024, the Company had 467,276,161 ordinary shares on issue. Further details of the Company's equity securities are as follows:

Rank	Name	30 Aug 2024	%IC
1	MR RYAN PRUE	14,000,000	3.00
2	MR PHILIP JACOBSEN & MRS MAXINE JACOBSEN	11,478,943	2.46
3	MULLACAM PTY LTD	7,296,023	1.56
4	FLAG CAPITAL PTY LTD	5,876,453	1.26
5	MR JIASHUN YANG	5,253,000	1.12
6	CITICORP NOMINEES PTY LIMITED	4,663,983	1.00
7	SUPERNOVA FUND PTY LTD	4,341,363	0.93
8	INVIA CUSTODIAN PTY LIMITED	4,040,000	0.86
9	ADSD SOODIN HOLDINGS PTY LTD	3,865,051	0.83
10	MS SHENGYAN HU & MR XIANGJUN ZHAO	3,550,000	0.76
11	MR CHRISTOPHER JOHN PAGE	3,500,000	0.75
12	T R SAMUELS TRANSPORT PTY LIMITED	3,305,817	0.71
13	CMC MARKETS STOCKBROKING NOMINEES PTY LIMITED	3,187,043	0.68
14	MR MICHAEL ANDERSON	2,524,620	0.54
15	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	2,475,884	0.53
16	MR XUELONG SUN	2,463,750	0.53
17	COMMONWEALTH SCIENTIFIC AND INDUSTRIAL RESEARCH ORGANISATION	2,450,338	0.52
18	PACIFIC CUSTODIANS PTY LIMITED	2,183,068	0.47
19	HARDMAIL PTY LTD	2,150,000	0.46
20	FINCLEAR SERVICES PTY LTD	1,906,633	0.41
Total		90,511,969	19.37
Balance of register		376,764,192	80.63
Grand total		467,276,161	100.00

Distribution of equity holders

Holding distribution

Range	Securities	%	No. of holders
100,001 and Over	282,273,197	60.41	689
10,001 to 100,000	134,327,697	28.75	4,351
5,001 to 10,000	22,760,457	4.87	2,989
1,001 to 5,000	24,035,056	5.14	9,377
1 to 1,000	3,879,754	0.83	7,175
Total	467,276,161	100.00	24,581

Unmarketable parcels

The number of investors holding less than a marketable parcel of 12,500 (\$0.39 on 2 September 2024) is 20,120 and they hold 57,184,701 securities.

SHAREHOLDER INFORMATION

(CONTINUED)

Distribution of Options and Performance Rights

There were 1,859 individuals holding a total of 34,721,574 options and 8 individuals holding a total of 1,430,352 performance rights.

Options

Range	No. of holders	%	Options	%
1 to 1,000	707	38%	290,508	1%
1,001 to 5,000	600	32%	1,569,425	5%
5,001 to 10,000	196	11%	1,442,717	4%
10,001 to 100,000	325	17%	9,871,097	28%
100,001 and over	31	2%	21,547,827	62%
Total	1,859	100%	34,721,574	100%

Performance rights

Range	No. of holders	%	Performance Rights	%
1 to 1,000	-	0%	-	0%
1,001 to 5,000	-	0%	-	0%
5,001 to 10,000	-	0%	-	0%
10,001 to 100,000	2	25%	172,739	12%
100,001 and over	6	75%	1,257,613	88%
Total	8	100%	1,430,352	100%

On-market purchases

No securities were purchased on-market for the purposes of an employee incentive scheme or to satisfy the entitlements of security holders to acquire securities granted under an employee incentive scheme during FY24.

Voting rights

The voting rights attaching to each ordinary share are that holders of ordinary shares have the right to vote at every general meeting of the Company. At a general meeting every holder of ordinary shares present in person or by proxy has, on a poll, one vote for each ordinary share held.

There are no voting rights attached to the performance rights. The performance shares are ordinary, unquoted shares and are subject to restrictions on transfer. The holders of the performance shares do have voting rights.

Securities exchange

The Company is listed on the Australian Securities Exchange. The home exchange is Melbourne.

Other information

Cann Group Limited, incorporated and domiciled in Australia, is a publicly listed company limited by shares.

CORPORATE DIRECTORY

Directors

Dr Julian Chick, Chairman
Jenni Pilcher, Managing Director & CEO
Doug Rathbone AM, Non-executive Director
Robert Barnes, Non-executive Director

Auditors

William Buck
Level 20, 181 William Street
Melbourne, Victoria 3000
Phone: 03 9824 8555

Company Secretary

Steven Notaro

Chief Executive Officer

Jenni Pilcher

Registered Office

262-276 Lorimer Street
Port Melbourne, Victoria 3207
Phone: 03 9095 7088
Email: contact@canngrouplimited.com
Website: www.canngrouplimited.com

Share Registry

Link Market Services
Tower 4, 727 Collins Street
Melbourne, Victoria 3000
Phone: 1300 554 474 (within Australia)
+61 2 8280 7100 (from outside Australia)

ASX Listing

(ASX:CAN)

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Cann Group acknowledges
the Traditional Owners of all
the lands on which we work.

We pay our respects to
Aboriginal and Torres Strait
Islander cultures, and to
Elders past and present.



