

AUSCANN GROUP HOLDINGS LTD
(formerly TW Holdings Limited)

ABN 72 008 095 207

FINANCIAL REPORT
FOR THE YEAR ENDED
30 JUNE 2017

For personal use only

Chairman's Letter

On behalf of the Board of AusCann Group Holdings Ltd, I am pleased to present the 2017 Annual Report to shareholders.

In the lead in to this financial year, and in response to a cross party bill, the Commonwealth announced on 17 October 2015 its intention to make amendments to the *Narcotic Drugs Act 1967* to enable the cultivation of cannabis for medicinal and scientific purpose and facilitate production of medicinal cannabis products for clinical trial and specified patients. The Narcotic Drugs Amendment Bill 2016 was passed by Parliament in February 2016.

This financial year saw the provisions of the legislation and relevant regulations come into effect on 30 October 2016. By the end of the 2016 the Office of Drug Control had been formed as part of the Health Products Regulation Group, Australian Department of Health, and AusCann was able to apply for licences to cultivate, produce and manufacture medicinal cannabis in Australia.

Over the 2016-2017 financial year, AusCann Group Holdings secured a licence to cultivate and produce from the Office of Drug Control. Further, it brings me great pleasure to report that post year-end, we received a licence to manufacture, making the Company one of the first to have approval for a complete and fully-Australian supply chain.

This year represents our first year as a public company, following our successful listing on the Australian Securities Exchange in February 2017. The Company successfully raised \$17 million over the financial year, ensuring a solid financial position to underpin our strategy. Our strategic partner Canopy Growth Corporation participated in the capital raising, maintaining their position as a major shareholder.

While pursuing a licence to operate in Australia, AusCann diversified exposure to the rapidly growing global medicinal cannabis sector with the establishment of DayaCann, a Chilean joint venture with a strong local partner. Our first harvest in Chile was productive and on target, with DayaCann providing over 400kg of dried medicinal cannabis to a GMP-certified manufacturer.

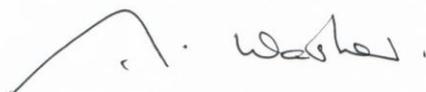
The Company also welcomed a strategic partnership with Tasmanian Alkaloids Pty Ltd, one of the world's largest manufacturers of controlled substances. The AusCann - Tasmanian Alkaloids partnership was granted cultivation, production and research licences for Tasmania by the Office of Drug Control, post year-end.

This year has also seen the release of major scientific publications and a review by the prestigious US National Academies of Science, Engineering and Medicine assessing the clinical evidence for medicinal cannabis¹. A strong evidence base is fundamental to the development of this sector and, more importantly, to support patient access and treatment.

I was delighted to welcome Dr Danial Schecter as the Company's Chief Medical Advisor in June 2017. Dr Schecter brings a wealth of clinical experience in cannabinoid medicines to the position, and is key to our commitment to support the Australian medical community in this new and rapidly developing field.

I thank my fellow Board members, our Managing Director Elaine Darby and the AusCann team for their commitment and hard work over the past year. I would also like to thank our shareholders for your continued support.

Yours sincerely



Dr Mal Washer MBBS, DHIthSci
Chairman

¹ National Academies of Sciences, Engineering, and Medicine. 2017. The health effects of cannabis and cannabinoids: The current state of evidence and recommendations for research. Washington, DC: The National Academies Press. doi: 10.17226/24625

Letter from the Managing Director

The 2017 financial year has seen the completion of a backdoor listing of AusCann Group Holdings Ltd on the Australian Stock Exchange, with a successful raise of \$5 million through our initial public offer, followed by a \$12 million capital raise in May 2017.

Concurrently the Company progressed development of a domestic operations through licence applications under the *Narcotic Drugs Act*, achieving licences for cultivation and production and, post year-end, manufacture in Western Australia. In May 2017, AusCann entered into a Heads of Agreement with Tasmanian Alkaloids to form an exclusive strategic partnership, capitalizing on the strengths of both companies. Post year-end, the AusCann - Tasmanian Alkaloids partnership was granted cultivation, production and research licences in Tasmania under the *Narcotic Drugs Act*, further expanding our domestic operations.

The Company diversified operations in a joint venture with Fundación Daya, a respected and government licenced Chilean cannabis grow operation. The joint venture, DayaCann, planted its first crop in Chile in November 2016, with the harvest completed on schedule in April 2017. Over 400kg of dried cannabis material was supplied to a GMP-certified pharmaceutical manufacturer and four superior strains were identified for future crops.

This financial year saw changes in the regulatory framework with the Therapeutic Goods Administration (TGA) adopting a standard (Therapeutic Goods Order No. 93) specifying the minimum requirements for quality of medicinal cannabis products, and allowing importation under the *Customs (Prohibited Imports) Regulations 1956* in advance of the patient access approval. Both changes were welcomed by the Company. The Senate disallowance of items 1 and 4 of the *Therapeutic Goods and Other Legislation (Narcotic Drugs) Regulation 2016* means that imported medicinal cannabis products can be supplied through the TGA Special Access Scheme Category A for terminally ill patients. The regulations at the State/Territory level continue to evolve and the Company remains informed and proactive in this complex legal environment.

Under the Australian system, patient access requires prescription by a doctor holding authorization at the Commonwealth and State/Territory level. A key focus of this financial year has been the initiation of AusCann's Medical Outreach Program, to support the Australian medical community with training on the endocannabinoid system and the therapeutic benefits and risks of cannabinoid medicines. The Company welcomed Dr Danial Schecter as Chief Medical Advisor – a Canadian physician who brings to the role years of clinical experience in the prescription of cannabinoid medicines, as well as being a respected lecturer and medical trainer. In May 2017, Dr Schecter conducted seminars and met with individual Australian clinicians in Perth, Sydney and Brisbane and is working with the Company to develop educational material. AusCann has also appointed three Medical Liaison Managers to support the Program in the future and provide individualized contact and support to Australian doctors.

Many of the achievements of this financial year have laid the foundation for AusCann's continuing business strategy, underpinned by our focus to provide patients with access to high quality, economical and clinically-validated cannabinoid medicines and deliver shareholder value.

Yours sincerely



Elaine Darby BSc(Hon) BLaw
Managing Director

AUSCANN GROUP HOLDINGS LTD

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COMPANY INFORMATION

DIRECTORS

Dr Malcolm Washer
Elaine Darby
Harry Karelis
Hon. Cheryl Edwardes AM
Bruce Linton
Bruce McHarrie
David Price (alternate for Bruce Linton)

COMPANY SECRETARY

Ms Susan Hunter

REGISTERED OFFICE

85 Carabooda Road
Carabooda WA 6033

WEBSITE

www.auscann.com.au

CORPORATE GOVERNANCE

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

AUDITORS

PKF Mack
Level 4
35 Havelock Street
West Perth WA 6005

SHARE REGISTRY

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

STOCK EXCHANGE

Australian Securities Exchange Ltd

ASX CODE

AC8

AUSCANN GROUP HOLDINGS LTD

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DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2017

The Directors present their report together with the financial statements of AusCann Group Holdings Ltd ("the Company" or "AusCann") and its controlled entity (collectively "the consolidated entity") for the year ended 30 June 2017.

Directors

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

Dr Malcolm Washer	Appointed 19 January 2017
Elaine Darby	Appointed 19 January 2017
Harry Karelis	Appointed 19 January 2017
Hon. Cheryl Edwardes AM	Appointed 19 January 2017
Bruce Linton	Appointed 19 January 2017
Bruce McHarrie	Appointed 19 January 2017
David Price	Appointed 15 June 2017 (alternate for Mr Linton)
David Wheeler	Resigned 19 January 2017
Nicholas Calder	Resigned 19 January 2017
Simon Taylor	Resigned 19 January 2017

Information on directors

Name: Dr Malcolm Washer
Title: Non-executive Chairman
Qualifications: MBBS
Experience and expertise: Dr Washer was a Liberal member of the Australian House of Representatives from 1998 to 2013. He was educated at the University of Western Australia, graduating in 1970 with degrees in medicine and surgery. He was a general practitioner before entering politics, and established prominent medical centres in Western Australia. He was also past chair of the Alcohol and Other Drugs Council of Australia. He has extensive experience in agricultural and horticultural activities and currently operates a commercial avocado plantation in Western Australia, bringing highly relevant medical and horticultural expertise and experience to AusCann.

Interests in shares and options
Ordinary shares: 12,707,786

Name: Elaine Darby
Title: Managing Director
Qualifications: BSc(Hons) LLB(Hons)
Experience and expertise: Ms Darby holds a Bachelor of Science in Biochemistry & Microbiology, with Honours in Molecular Biology, and a Bachelor of Laws. Previous roles have included project manager and investment director with Biologica Ventures, an advisory firm in the bio-medical sector, as a lawyer with top tier corporate law firm Clayton Utz, Media and Communications Officer for an Australian Federal Member of Parliament, and Managing Director and Senior Winemaker of Aquila Estate Winery where she was an award winning wine-maker and also involved in international business development and marketing in territories including Singapore, Japan, Canada, the United Kingdom, and the United States.

Interests in shares and options
Ordinary shares: 11,606,445

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DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2017

Name: Harry Karelis
Title: Executive Director
Qualifications: B.Sc(Hons) MBA Grad.Dip Applied Finance & Investment CFA FFin FAICD
Experience and expertise: Mr Karelis is the founder of Titan Capital Partners, a privately held investment group involved in a range of projects. He has over 24 years of diversified experience in the financial services sector including fundamental analysis, funds management and private equity investing, and has acted as a director of public and private companies in Australia, Singapore and the United Kingdom.

He graduated from The University of Western Australia with Bachelor of Science (Honours) majoring in Biochemistry and Microbiology, and an MBA. He is a Fellow of the Financial Services Institute of Australia, a Fellow of the Australian Institute of Company Directors and has qualified as a Chartered Financial Analyst (CFA) from the CFA Institute in the United States.

Directorships held in other listed entities
Interests in shares and options
Velpic Ltd (17 October 2014 – current)
Wangle Technologies Limited (14 August 2014 – 19 February 2016)
Zelda Therapeutics Limited (17 November 2016 – current)
Ordinary shares: 15,771,393

Name: Hon. Cheryl Edwardes AM
Title: Independent Non-executive
Qualifications: LLM, BA, GAICD
Experience and expertise: Ms Edwardes was the former Attorney-General for Western Australia and Minister for the Environment. She was most recently Executive General Manager for External Affairs, Government Relations and Approvals at Hancock Prospecting.

She has extensive experience of successful negotiations to ensure critical primary agreements and government approvals are obtained in a timely fashion. Such agreements and approvals include the Roy Hill Rail State Agreement and the Special Railway Licence, Port Lease and Licence, Native Title Agreements, Environmental Approvals, State and Federal and many other critical approvals for Hancock Prospecting Pty Ltd and Roy Hill Iron Ore and Infrastructure.

Directorships held in other listed entities
Interests in shares and options
Atlas Iron Limited (6 May 2015 – current)
Vimy Resources Limited (26 May 2014 – current)
Ordinary shares: 50,000

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DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2017

Name: Bruce Linton
Title: Non-executive
Qualifications: BPA
Experience and expertise: Mr Linton is the founder, Chairman and CEO of Canopy Growth Corporation, one of the world's leading medical cannabis companies. Canopy Growth, through its subsidiaries Tweed and Bedrocan Canada, is the world's largest producer of legal cannabis, and recently entered into a strategic partnership with AusCann.

He has more than 10 years of senior executive experience in the high-tech sector as a founder, executive and board member. He has a proven track record of international success, working extensively with the World Bank and the Asia Development Bank. He enjoys a high profile in the global medicinal cannabis sector and has a demonstrable track record of raising the capital required to build large scale cannabis business.

Interests in shares and options
Ordinary shares: 29,865,000 indirectly via Canopy Growth Corporation
Options: 7,677,639 indirectly via Canopy Growth Corporation

Name: Bruce McHarrie
Title: Non-executive
Qualifications: BCom FCA GAICD
Experience and expertise: Mr McHarrie is an experienced senior executive with a background in the life sciences industry focussed on finance, operations, business and investment management, and strategic planning.

He is a non-executive director of Adherium Limited, an ASX-listed listed digital health technologies company, Chairman of the Animal Ethics Committee of the child health research organization, Telethon Kids Institute, and undertakes corporate consulting activities.

He previously served as the Chief Financial Officer, Director of Operations and Director of Strategic Projects with the Telethon Kids Institute in Western Australia. Prior to joining the Telethon Kids Institute, he was based in London as an Assistant Director at Rothschild Asset Management in the Bioscience Unit, a life sciences private equity group investing in early stage biotechnology, healthcare and agribusiness companies. He co-founded two Institute spin-outs including publicly listed drug discovery company, Phylogica Limited, and has held other non-executive director positions in biotechnology and not-for-profit healthcare organisations.

Bruce is a Fellow of the Institute of Chartered Accountants (Australia and New Zealand) and a graduate of the Australian Institute of Company Directors.

Directorships held in other listed entities
Adherium Limited (20 July 2015 – present)
Phylogica Limited (9 Aug 2002 – 8 April 2016)

Interests in shares and options
Ordinary shares: 100,000

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DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2017

Name: David Price
Title: Alternate for Bruce Linton
Qualifications: BA MBA
Experience and expertise: David is currently Vice President of International Market Expansion and Global Government Relations at Canopy Growth Corp., the largest cannabinoid medicine producer in North America. In this capacity, he is responsible for taking the company into new markets, growing footprint and driving its global expansion.

He previously held senior positions at BlackBerry and D2L, and founded the Dewhurst Group, a global affairs advisory consultancy. David has also been a senior advisor to the Premier of Ontario, Ontario Minister of Finance and the Canadian Minister of Industry.

David holds a specialised honours Bachelor of Arts degree in Political Studies from the University of Guelph and a Masters of Business Administration from Wilfrid Laurier University, where he also taught in the School of Business & Economics.

Name: David Wheeler (resigned 19 January 2017)
Title: Non-executive
Qualifications: FAICD
Experience and expertise: Mr Wheeler has more than 30 years executive management experience through general management, CEO and managing director roles across a range of companies and industries. He has worked on business projects in the USA, UK, Europe, New Zealand, China, Malaysia and the Middle East. He has been a Fellow of the Australian Institute of Company Directors (FAICD) since 1990.

Directorships held in other listed entities
333D Limited (15 April 2011 – current)
Castillo Copper Limited (13 August 2015 – current)
Antilles Oil and Gas NL (12 February 2016 – current)
Protean Energy Limited (16 May 2017 – current)
AusMex Mining Group Limited (1 October 2014 – 1 August 2017)
Ultracharge Limited (1 December 2015 – 1 August 2017)
Premiere Eastern Energy Limited (24 August 2014 – 30 April 2017)
WestStar Industrial Limited (12 August 2015 – 18 November 2016)
Valor Resources Limited (17 March 2016 – 10 May 2016)

Name: Nicholas Calder (resigned 19 January 2017)
Title: Non-executive
Qualifications: BCom, FCA
Experience and expertise: Mr Calder is a chartered accountant and registered company auditor. He was a partner of PKF Mack & Co from 2006 to 2012 before commencing NK Advisory, which provides corporate, strategic and company secretarial services to oil and gas, mining and manufacturing companies based in Perth, Western Australia. He graduated from the University of Western Australia with a Bachelor of Commerce degree.

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DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2017

Name: Simon Taylor (resigned 19 January 2017)
Title: Non-executive
Qualifications: BSc(Geology), MAIG, GCertAppFin(Finsia)
Experience and expertise: Mr Taylor is a geologist with over 25 years' experience in exploration, project assessment and development in the resources sector. He has had a diversified career as a resources professional, providing services to resource companies and financial corporations at both a technical and corporate level. Mr Talyor's experience has been predominantly overseas but has also covered projects in Australia. He is a member of the Australian Institute of Geoscientists and a graduate of Sydney University.
Directorships held in other listed entities: Chesser Resources Limited (29 May 2007 – current)
Oklo Resources Limited (28 August 2014 – current)
Xref Limited (1 October 2014 – 18 January 2016)
Interests in shares and options: Nil

Company Secretary

Susan Hunter (BCom, ACA, F Fin, GAICD, AGIA) – appointed 18 October 2016

Ms. Hunter has 20 years' experience in the corporate finance industry and is founder and Managing Director of consulting firm Hunter Corporate Pty Ltd, which specialises in the provision of corporate governance and company secretarial advice to ASX listed companies. Ms. Hunter holds a Bachelor of Commerce degree from the University of Western Australia majoring in accounting and finance, is a Member of the Australian Institute of Chartered Accountants, a Fellow of the Financial Services Institute of Australasia, a Member of the Governance Institute of Australia and a Member of the Australian Institute of Company Directors.

Board and committee meetings

Director	Directors' Meetings		Audit and Risk Committee Meetings		Remuneration and Nomination Committee Meetings	
	Meetings held whilst in office	Attended	Meetings held whilst in office	Attended	Meetings held whilst in office	Attended
Dr Malcolm Washer ¹	4	4	1	-	1	1
Elaine Darby ¹	4	4	-	-	-	-
Harry Karelis ¹	4	4	-	-	-	-
Hon. Cheryl Edwardes AM ¹	4	4	1	1	1	1
Bruce Linton ¹	4	2	-	-	-	-
Bruce McHarrie ¹	4	3	1	1	1	1
David Pryce ²	-	-	-	-	-	-
David Wheeler ³	-	-	-	-	-	-
Nicholas Calder ³	-	-	-	-	-	-
Simon Taylor ³	-	-	-	-	-	-

¹ Director appointed on 19 January 2017.

² Alternate Director for Bruce Linton, appointed on 15 June 2017.

³ Director resigned on 19 January 2017.

⁴ The Audit and Risk Committee and the Remuneration and Nomination Committee were established by the Board on 2 February 2017. The members of the Audit and Risk Committee are B. McHarrie (Chair), Dr M. Washer (member) and C. Edwardes (member). The members of the Remuneration and Nomination Committee are C. Edwardes (Chair), Dr M. Washer (member) and B. McHarrie (member).

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DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2017

State of affairs

On 19 January 2017, the Company completed the acquisition of AusCann Operations Pty Ltd (formerly AusCann Group Holdings Ltd), and changed its name from TW Holdings Limited to AusCann Group Holdings Ltd.

In consideration for the acquisition, 146,709,182 ordinary shares and 28,230,345 performance shares were issued to AusCann and Canopy shareholders and convertible note holders, and 7,677,639 options expiring 19 January 2020 were issued to Canopy shareholders. The performance shares converted to ordinary shares on 10 May 2017.

14,521,229 ordinary shares and 2,794,231 performance rights were issued to advisors in consideration for their work on the acquisition. The performance rights converted to ordinary shares on 10 May 2017.

A public offer of 25,000,000 ordinary shares conducted at the same time as the acquisition raised \$5 million and a placement of 24,000,000 ordinary shares in May 2017 raised \$12 million.

The convertible notes that were on issue at the start of the year converted to 805,332,528 ordinary shares. Those shares were eliminated on consolidation as part of the reverse acquisition of AusCann Operations Pty Ltd. Refer to the attached financial statements for further discussion of the acquisition.

The consolidated entity entered into a binding heads of agreement to establish an international base of operations in Chile, through the DayaCann joint venture with Fundación Daya.

Principal activities

The Board and Management of AusCann Group Holdings Ltd maintain the belief that patients have a right to high quality, economical and clinically-validated cannabis medicines. Towards this, AusCann's principal activities during the financial year were the establishment of production in Chile under the DayaCann joint venture, and a licence to operate in the Australian domestic market through the regulatory approvals process.

Operating results and financial position

The loss of the consolidated entity for the financial year was \$14,137,177 (2016: \$5,811,072). The loss included a \$7,159,307 non-cash listing fee resulting from the acquisition and \$3,677,998 of non-cash share-based payments.

The net assets of the consolidated entity increased to \$15,014,533 at 30 June 2017 from \$2,625,006 as at 30 June 2016 as a result of the acquisition and capital raisings.

**DIRECTORS' REPORT
FOR THE YEAR ENDED 30 JUNE 2017**

Review of operations

Cannabis has a long history of therapeutic use dating back some 5000 years, joining many other plant-based ancient medicines. Many of the investigations into clinical use of cannabis today align with observational studies dating back to the 1800s. A variety of societal and technological developments led to the stigmatisation of cannabis in the 1920s, followed by an international prohibition in the 1940s which derailed research into potential therapeutic uses. The characterisation of the cannabinoids in the 1960s and the discovery of their natural target, the endocannabinoid system, in the 1990s, re-ignited interest in medical use. Over the past decade however there has been increased focus on the medicinal properties of cannabis, and a growing body of clinical research attesting to its potential for a range of symptoms and conditions. This has seen several countries change public policy, endorsing laws that allowed for therapeutic use of cannabis.

In Australia, the *Narcotic Drugs Regulations 2016* was released late that year, and gave effect to the regulatory framework for the licencing of cultivation, production and manufacture of cannabis for medicinal and scientific purpose, as provided for under the preceding amendments of the *Narcotic Drugs Act 1967*. By end of 2016, AusCann had submitted applications to the Office of Drug Control (ODC) for licences across the supply chain (grow, production, drug manufacture). Substantial progress was made by the consolidated entity in the first half of 2017 to demonstrate to the ODC a robust and compliant operational framework, covering security, record keeping, supply chain management and governance, under the application review procedure for a domestic operation. This culminated in the granting of a cultivation and production licence in May 2017.

Concurrently, AusCann entered into a binding heads of agreement to establish an international base of operations in Chile, through the DayaCann joint venture with Fundación Daya. The joint venture provided AusCann with the immediate ability to commence grow operations with a strong local partner holding all necessary licences and permits. The first Chilean crop was planted in November 2016, and harvested on target in April 2017. Over 400kg of dried medicinal cannabis was provided to a GMP-certified manufacturing facility for processing into medicinal cannabis formulations. These activities complement AusCann's proposed domestic operations, and provide diversified exposure to the rapidly growing global medicinal cannabis sector from a stable, progressive and low-cost base.

In May 2017 AusCann announced a heads of agreement with Tasmanian Alkaloids Pty Ltd to form an exclusive strategic partnership. Owned by SK Capital Partners, Tasmanian Alkaloids is one of the world's largest manufacturers of controlled substances, producing alkaloid raw material grown in Tasmania. With established and modern manufacturing facilities which are compliant with Good Manufacturing Practice standards, and an international network within the pharmaceutical sector, Tasmanian Alkaloids provides AusCann with the opportunity to fast track domestic manufacture and position itself within the global industry.

The financial year also saw the clarification of processes at the Federal and State/Territory level for patient access to medicinal cannabis in Australia. As a prescription only medicine, the knowledge base of the medical community in this rapidly evolving space, and their willingness to pursue authorisations, is paramount for patient access. In June this year, the consolidated entity welcomed Dr Danial Schechter as its Chief Medical Advisor. Dr Schechter has worked extensively within the field having founded the largest referral only clinic in Canada that specialises in cannabinoid medicine. Coupled to his clinical experience, Dr Schechter has lectured at over one hundred events internationally, and trained dozens of physicians.

Medical education forms a key part of AusCann's strategies, and Dr Schechter will assist the rollout of the Medical Outreach Program. The Program aims to further the medical community's understanding of how cannabinoids are currently being used therapeutically in other jurisdictions, to enable doctors to make informed decisions on prescription of medicinal cannabis. The Program commenced with a series of education seminars in Sydney, Brisbane and Perth which had strong attendance from interested practitioners focussed on pain management and palliative care.

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DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2017

Future developments, prospects and business strategies

The focus of AusCann remains the provision of high quality, economical and clinically validated cannabis medicines, with emphasis in the near term on progressing existing strategic partnerships and a program of engagement with the Australian medical community.

Environmental regulation

The consolidated entity's operations are not subject to significant environmental regulations under either Commonwealth or State legislation.

Dividends

No dividends were paid or declared during the year (2016: nil).

Events subsequent to reporting date

AusCann was granted its manufacturing licence in August 2017, making the consolidated entity one of the first to have a complete and fully-Australian supply chain to provide medicinal cannabis products to patients. The consolidated entity's domestic licence to operate has also been expanded with the granting of a cultivation and production licence to the AusCann – Tasmanian Alkaloids strategic partnership.

Supporting the Chief Medical Officer and Medical Outreach Program, AusCann has appointed three Medical Liaison Managers, operating nationally, to provide scientific education to the medical community and facilitate data discussions in therapeutic areas relevant to the consolidated entity. Commencing early September, the Outreach Team will be conducting a second series of education seminars in Adelaide, Sydney, Melbourne and Perth, as well as in-field medical training of clinicians.

A consultation by the Office of Drug Control seeking comment on the export of Australian cultivated and manufactured medicinal cannabis products closed in July 2017. Export of domestic product is not currently allowed but was envisaged in the second reading speech in Parliament outlining the Narcotic Drugs Amendment Act 2016, allowing for 'a provision for exports to be addressed at a later date'. On 8 August 2017, the ODC announced that it had received over 40 written submission and that there was overwhelming support for allowing export. AusCann remains watchful of developments in this space.

On 10 August 2017, 7,500,000 options were issued to an investor relations advisor.

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

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DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2017

Indemnification and insurance of officers and auditors

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

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

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

Share options

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

Grant Date	Expiry Date	Exercise Price	Number
19 January 2017	19 January 2020	\$0.20	7,677,639
19 January 2017	19 January 2020	\$0.21	150,000
11 April 2017	11 April 2018	\$0.936	1,500,000
10 August 2017	31 December 2020	\$0.60	2,500,000
10 August 2017	31 December 2020	\$0.70	2,500,000
10 August 2017	31 December 2020	\$0.80	2,500,000

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

Shares issued on the exercise of options

No shares were issued on exercise of options during the year ended 30 June 2017. 31,024,576 ordinary shares were issued on the conversion of performance shares and rights.

Corporate governance

The Board has adopted the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations, to the extent they are applicable to the consolidated entity.

The consolidated entity's corporate governance policies are outlined on its website at <http://www.auscann.com.au/investor-centre/corporate-governance.html>.

AUSCANN GROUP HOLDINGS LTD

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DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2017

Remuneration Report (audited)

This report, which forms part of the Directors' Report, outlines the remuneration arrangements in place for the key management personnel of the consolidated entity for the financial year ended 30 June 2017. The information provided in this remuneration report has been audited as required by Section 308(3C) of the Corporations Act 2001.

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

Key Management Personnel

Directors

Dr Malcolm Washer	Non-executive Chairman	Appointed 19 January 2017
Elaine Darby	Managing Director	Appointed 19 January 2017
Harry Karellis	Executive Director	Appointed 19 January 2017
Hon. Cheryl Edwardes AM	Independent Non-Executive Director	Appointed 19 January 2017
Bruce Linton	Non-Executive Director	Appointed 19 January 2017
Bruce McHarrie	Non-Executive Director	Appointed 19 January 2017
David Price	Alternate Director for Mr Linton	Appointed 15 June 2017
David Wheeler	Non-executive Chairman	Resigned 19 January 2017
Nicholas Calder	Non-Executive Director and Company Secretary	Resigned 19 January 2017
Simon Taylor	Non-Executive Director	Resigned 19 January 2017

Remuneration Philosophy

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

Non-executive directors

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

Directors' fees

Directors' fees are determined within an aggregate directors' fee pool limit, which is periodically recommended for approval by shareholders. The maximum for all non-executive directors currently stands at \$300,000 in aggregate. This amount is separate from any specific tasks the directors may take on for the consolidated entity in the normal course of business and at normal commercial rates.

Fees for directors are not linked to the performance of the consolidated entity, however to align all directors' interests with shareholders' interests, directors are encouraged to hold shares in the Company and may receive options. This effectively links directors' performance to the share price performance and therefore to the interests of shareholders. There have been no performance conditions imposed prior to the grant of options which act as an incentive to increase the value for all shareholders.

AUSCANN GROUP HOLDINGS LTD

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DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2017

Executive remuneration

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

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

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

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

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

Employment Contracts

Name	Base Salary	Incentives	Termination conditions
Elaine Darby Managing Director	\$310,000 pa plus 9.5% superannuation	<ul style="list-style-type: none">• Short-term incentive of up to 25% of base salary based on the achievement of certain KPIs, payable in cash at the end of FY2018• \$50,000 cash bonus payable at the end of FY2017	<ul style="list-style-type: none">• 3 months' written notice by either party, or immediate termination if serious misconduct• Severance payment equal to 6 months base salary if terminated involuntarily

AUSCANN GROUP HOLDINGS LTD

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DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2017

Details of remuneration

REMUNERATION FOR THE YEAR ENDED 30 JUNE 2017

	Short-Term Benefits: Director Fees and Salaries \$	Short-Term Benefits: Cash Bonuses ⁶ \$	Short-Term Benefits: Advisor Fees \$	Post-Employment Benefits \$	Share-based Payments \$	Total \$	Value of Share-based Payments as a Proportion of Remuneration %
Directors							
Dr Malcolm Washer ¹	33,333	-	-	4,592	-	37,925	-
Elaine Darby ^{1, 6}	109,231	50,000	-	15,127	-	174,358	-
Harry Karelis ^{1, 2}	50,000	-	161,900	-	776,540	988,440	78.6
Hon. Cheryl Edwardes AM ¹	23,333	-	-	2,217	-	25,550	-
Bruce Linton ¹	21,606	-	-	-	-	21,606	-
Bruce McHarrie ¹	23,333	-	-	2,217	-	25,550	-
David Price ³	-	-	-	-	-	-	-
David Wheeler ⁴	22,043	-	-	-	5,665	27,708	20.4
Nicholas Calder ^{4, 5}	39,839	-	-	-	5,665	45,504	12.4
Simon Taylor ⁴	19,839	-	-	-	5,665	25,504	22.2
Total	342,557	50,000	161,900	24,153	793,535	1,372,145	

1. Appointed 19 January 2017.
2. Mr. Karelis' advisor fees and share-based payments relate to his role in the acquisition.
3. Appointed 15 June 2017.
4. Resigned 19 January 2017.
5. Includes fees for company secretarial services to 18 October 2016.
6. 28.7% of Ms Darby's remuneration was performance-based. Cash bonuses are dependent on meeting defined performance measures.

REMUNERATION FOR THE YEAR ENDED 30 JUNE 2016

	Short-Term Benefits \$	Post-Employment Benefits \$	Share-based Payments \$	Total \$	Value of Share-based Payments as a Proportion of Remuneration %
Directors					
David Wheeler	40,000	-	-	40,000	-
Nicholas Calder ¹	96,000	-	-	96,000	-
Simon Taylor	36,000	-	-	36,000	-
Total	172,000	-	-	172,000	

1. Includes fees for company secretarial services.

AUSCANN GROUP HOLDINGS LTD

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DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2017

Key management personnel equity holdings

Fully paid ordinary shares of the Company held either directly or indirectly:

	Opening Balance 1 July 2016 No.	Held or Granted at Appointment No.	Conversion of Performance Shares and Rights	Shares Issued in Placement	Closing Balance 30 June 2017 No.
2017					
Dr Malcolm Washer	-	10,657,105	2,050,681	-	12,707,786
Elaine Darby	-	9,733,489	1,872,956	-	11,606,445
Harry Karelis	-	13,226,331	2,545,062	-	15,771,393
Hon. Cheryl Edwardes AM	-	50,000	-	-	50,000
Bruce Linton ¹	-	23,032,917	4,432,083	2,400,000	29,865,000
Bruce McHarrie	-	100,000	-	-	100,000
David Price	-	-	-	-	-
D Wheeler	-	-	-	-	-
N Calder	-	-	-	-	-
S Taylor	-	-	-	-	-

1. Shares held by Canopy Growth Corporation, of which Bruce Linton is Chairman and CEO. 27,465,000 shares are held in escrow until 3 February 2019.

Options of the Company held either directly or indirectly:

	Opening Balance 1 July 2016 No.	Held or Granted at Appointment No.	Closing Balance 30 June 2017 No.	Exercisable No.	Unexercisable No.
2017					
Dr Malcolm Washer	-	-	-	-	-
Elaine Darby	-	-	-	-	-
Harry Karelis	-	-	-	-	-
Hon. Cheryl Edwardes AM	-	-	-	-	-
Bruce Linton ¹	-	7,677,639	7,677,639	-	7,677,639
Bruce McHarrie	-	-	-	-	-
David Price	-	-	-	-	-
D Wheeler	-	-	-	-	-
N Calder	-	-	-	-	-
S Taylor	-	-	-	-	-

1. Options held by Canopy Growth Corporation, of which Bruce Linton is Chairman and CEO.

Valuation of share-based payments to key management personnel

(a) Harry Karelis

3,421,795 ordinary shares were issued to Mr Karelis on 19 January 2017. The fair value of each share was deemed to be 20.00 cents, the price at which the Company raised capital at the same time as the reverse acquisition. The total fair value of the shares was \$684,359.

658,435 performance rights were issued to Mr Karelis on 19 January 2017. The fair value was determined using a binomial model and the following assumptions:

Expiry date	19 July 2018
Exercise price	Nil
Deemed spot price	\$0.20
Expected volatility	90%
Dividend yield	Nil
Risk-free rate	1.61%
Likelihood of achieving performance conditions	70%
Fair value per right	\$0.14
Total fair value	\$92,181

AUSCANN GROUP HOLDINGS LTD

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DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2017

(b) David Wheeler, Nicholas Calder, Simon Taylor

50,000 options were issued to each of the above former directors on 19 January 2017. The fair value was determined using a binomial model and the following assumptions:

Expiry date	19 January 2020
Exercise price	\$0.21
Deemed spot price	\$0.20
Expected volatility	90%
Dividend yield	Nil
Risk-free rate	2.01%
Fair value per option	\$0.1133
Total fair value	\$5,665

End of Audited Remuneration Report

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AUSCANN GROUP HOLDINGS LTD
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DIRECTORS' REPORT
FOR THE YEAR ENDED 30 JUNE 2017

Auditor's Independence Declaration

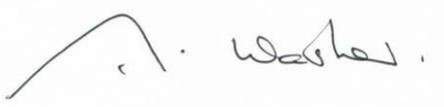
A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out immediately after this directors' report.

Auditor

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

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

On behalf of the directors



Dr Malcolm Washer
Chairman

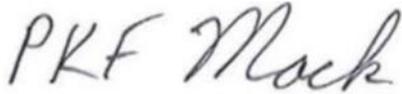
28 September 2017

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AUDITOR'S INDEPENDENCE DECLARATION

TO THE DIRECTORS OF AUSCANN GROUP HOLDINGS LTD

In relation to our audit of the financial report of AusCann Group Holdings Ltd for the year ended 30 June 2017, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.



PKF MACK



SHANE CROSS
PARTNER

28 SEPTEMBER 2017
WEST PERTH
WESTERN AUSTRALIA

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AUSCANN GROUP HOLDINGS LTD

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CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2017

	Note	2017 \$	2016 \$
Interest revenue		98,584	57,257
Other income	2	260,396	-
Employee benefits expense		(780,898)	(194,136)
Listing fee (excess deemed consideration for acquisition)	14	(7,159,307)	-
Share-based payments expense	15	(3,677,998)	(5,001,065)
Joint venture expenses		(75,121)	-
Consulting fees – directors		(161,900)	(152,500)
Consulting fees – other		(992,538)	(123,590)
Legal expenses		(317,543)	(173,579)
Travel and accommodation		(265,112)	(77,387)
Share of loss of DayaCann	8	(504,118)	-
Impairment of intangible assets		-	(56,221)
Depreciation expense		(121)	(181)
Other expenses	2	(561,501)	(89,670)
Total expenses		(14,496,157)	(5,868,329)
Loss before income tax expense		(14,137,177)	(5,811,072)
Income tax expense	3	-	-
Net loss for the year		(14,137,177)	(5,811,072)
Other comprehensive income, net of tax			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Foreign currency translation		(69,940)	-
Total comprehensive loss for the year		(14,207,117)	(5,811,072)
Earnings per share			
Basic loss per share (cents per share)	4	(0.92)	(0.29)
Diluted loss per share (cents per share)	4	(0.92)	(0.29)

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

AUSCANN GROUP HOLDINGS LTD

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**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2017**

	Note	2017 \$	2016 \$
CURRENT ASSETS			
Cash and cash equivalents	6	15,076,882	2,960,890
Other current assets	7	141,160	16,638
Total Current Assets		15,218,042	2,977,528
NON-CURRENT ASSETS			
Investment in DayaCann	8	580,625	-
Property, plant and equipment		242	363
Total Non-Current Assets		580,867	363
Total Assets		15,798,909	2,977,891
CURRENT LIABILITIES			
Trade and other payables	9	732,694	90,720
Other current liabilities	10	-	250,000
Employee entitlements	11	51,682	12,165
Total Current Liabilities		784,376	352,885
Total Liabilities		784,376	352,885
NET ASSETS		15,014,533	2,625,006
EQUITY			
Issued capital	12	33,519,536	8,191,528
Reserves	13	1,198,696	601,827
Accumulated losses		(19,703,699)	(6,168,349)
TOTAL EQUITY		15,014,533	2,625,006

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

AUSCANN GROUP HOLDINGS LTD

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2017

	Issued capital \$	Share- based payment reserve \$	Foreign currency translation reserve \$	Accumulated losses \$	Total \$
Balance at 1 July 2015	820,210	-	-	(357,277)	462,933
Loss after income tax for the period	-	-	-	(5,811,072)	(5,811,072)
Other comprehensive income for the period, net of tax	-	-	-	-	-
	-	-	-	(5,811,072)	(5,811,072)
<i>Transactions with owners in their capacity as owners</i>					
Issue of convertible notes, net of transaction costs	2,972,080	-	-	-	2,972,080
Share-based payment	4,399,238	601,827	-	-	5,001,065
Balance at 30 June 2016	8,191,528	601,827	-	(6,168,349)	2,625,006
Balance at 1 July 2016	8,191,528	601,827	-	(6,168,349)	2,625,006
Loss after income tax for the period	-	-	-	(14,137,177)	(14,137,177)
Other comprehensive income for the period, net of tax	-	-	-	-	-
Foreign currency translation	-	-	(69,940)	-	(69,940)
	-	-	(69,940)	(14,137,177)	(14,207,117)
<i>Transactions with owners in their capacity as owners</i>					
Deemed value of shares issued in acquisition (refer to Note 14)	6,023,624	-	-	-	6,023,624
Issue of shares, net of costs (refer to Note 12)	16,008,946	-	-	-	16,008,946
Issue of shares to advisors (refer to Note 12)	2,904,246	-	-	-	2,904,246
Issue of performance rights (refer to Note 13)	-	391,192	-	-	391,192
Issue of options (refer to Note 13)	-	1,268,636	-	-	1,268,636
Conversion of performance rights to ordinary shares (refer to Note 12)	391,192	(391,192)	-	-	-
Transfer of option reserve to accumulated losses	-	(601,827)	-	601,827	-
Balance at 30 June 2017	33,519,536	1,268,636	(69,940)	(19,703,699)	15,014,533

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

AUSCANN GROUP HOLDINGS LTD

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CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2017

	Note	2017 \$	2016 \$
CASH FLOW FROM OPERATING ACTIVITIES			
Interest received		87,148	51,190
Government grants and incentives		10,396	-
Receipt of exclusivity fee		-	250,000
Payments to suppliers and employees		(3,045,919)	(698,943)
Net cash used in operating activities	18	(2,948,375)	(397,753)
CASH FLOW FROM INVESTING ACTIVITIES			
Payments for investment in DayaCann		(816,359)	-
Pre-acquisition loan to TWH		(164,910)	-
Cash in TWH on acquisition		36,690	-
Net cash used in investing activities		(944,579)	-
CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		17,000,000	-
Proceeds from issue of convertible notes		-	3,322,000
Payments for capital raising costs		(991,054)	(349,920)
Repayment of shareholder funds		-	(100,000)
Net cash from financing activities		16,008,946	2,872,080
Net increase in cash and cash equivalents		12,115,992	2,474,327
Cash and cash equivalents at the beginning of the financial year		2,960,890	486,563
Cash and cash equivalents at the end of the financial year	6	15,076,882	2,960,890

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

AUSCANN GROUP HOLDINGS LTD

ABN 72 008 095 207

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES

These financial statements and notes represent those of AusCann Group Holdings Ltd (“the Company”) and its controlled entity (collectively “the consolidated entity”) for the year ended 30 June 2017.

AusCann Group Holdings Ltd is a company limited by shares incorporated and domiciled in Australia.

The financial statements were authorised for issue in accordance with a resolution of directors on 28 September 2017.

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

Basis of preparation

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

The financial report is presented in Australian dollars, which is the consolidated entity’s functional and presentation currency. The financial statements have been prepared on an accruals basis and are based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

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

Reverse acquisition

On 19 January 2017, AusCann Group Holdings Ltd (formerly TW Holdings Limited), the legal parent, completed the acquisition of AusCann Operations Pty Ltd (formerly AusCann Group Holdings Ltd). The legal subsidiary AusCann Operations Pty Ltd was deemed to be the acquirer for accounting purposes as it obtained control of the legal parent. The transaction was not deemed to be a business combination, as TW Holdings Ltd was not considered to be a business under AASB 3: *Business Combinations*.

Accordingly, the consolidated financial statements of the Group have been prepared as a continuation of the financial statements of the legal subsidiary AusCann Operations Pty Ltd with no fair value adjustments. The comparative information provided in the consolidated financial statements is that of AusCann Operations Pty Ltd.

AusCann Operations Pty Ltd was deemed to have issued shares in exchange for the net assets of AusCann Group Holdings Ltd, together with AusCann Group Holdings Ltd’s listing status. The listing status does not qualify for recognition as an intangible asset and therefore the excess of deemed consideration paid over the net tangible assets acquired has been expensed in profit or loss as a listing fee.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017**

New, revised or amending Accounting Standards and Interpretations

The consolidated entity has adopted the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period. There has been no significant impact from the adoption of these Standards and/or Interpretations.

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by the consolidated entity for the year ended 30 June 2017. Those that may be relevant to the consolidated entity are outlined the following table.

Title	Summary of change	Application date of standard	Application date for Group
AASB 9 Financial Instruments	<p>AASB 9 includes requirements for a simpler approach for classification and measurement of financial assets compared with the requirements of AASB 139.</p> <p>The main changes are described below.</p> <ul style="list-style-type: none"> (a) Financial assets that are debt instruments will be classified based on: <ul style="list-style-type: none"> (1) The objective of the entity's business model for managing the financial assets; (2) The characteristics of the contractual cash flows. (b) Allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument. (c) Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases. (d) Where the fair value option is used for financial liabilities the change in fair value is to be accounted for as follows: <ul style="list-style-type: none"> ➤ The change attributable to changes in credit risk are presented in other comprehensive income (OCI) ➤ The remaining change is presented in profit or loss. <p>The impact of this standard will depend on the consolidated entity's financial assets and liabilities at the time of application.</p>	1 January 2018	1 July 2018

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES (continued)

New, revised or amending Accounting Standards and Interpretations (continued)

AASB 15 Revenue from Contracts with Customers	<p>The core principle of AASB 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard introduces a 5-step approach to revenue recognition:</p> <p>Step 1: Identify the contract(s) with the customer. Step 2: Identify the performance obligations in the contract. Step 3: Determine the transaction price. Step 4: Allocate the transaction price to the performance obligations in the contract. Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.</p> <p>As the consolidated entity is in the development stage and currently has no customers, this standard would have no effect on its current financial statements.</p>	1 January 2018	1 July 2018
AASB 16 Leases	<p>The key features of the standard are:</p> <ul style="list-style-type: none"> • Lessees are required to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. • A lessee measures right-of-use assets similarly to other non-financial assets and lease liabilities similarly to other financial liabilities. • Assets and liabilities arising from a lease are initially measured on a present value basis. The measurement includes non-cancellable lease payments and payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease. <p>A lessor continues to classify its leases as operating leases or finance leases, and to account for these two types of leases differently. Enhanced disclosure requirements will improve information disclosed about a lessor's risk exposure.</p> <p>The consolidated entity will recognise a right-of-use asset and liability for any leases it has at the date of application of the standard. Depreciation of the lease assets and interest on the lease liability will be recognised in profit or loss.</p>	1 January 2019	1 January 2019
AASB 2014-10 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	<p>The amendments clarify that a full gain or loss is recognised when a transfer to an associate or joint venture involves a business as defined in AASB 3 Business Combinations. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture.</p> <p>There will be no impact on the financial statements when these amendments are first adopted because they apply prospectively to sales or contributions of assets occurring after the application date.</p>	1 January 2018	1 July 2018

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES (continued)

New, revised or amending Accounting Standards and Interpretations (continued)

Title	Summary of change	Application date of standard	Application date for Group
AASB 2016-1 Recognition of Deferred Tax Assets for Unrealised Losses	Clarifies the requirements on recognition of deferred tax assets for unrealised losses on debt instruments measured at fair value. The consolidated entity does not have debt instruments measured at fair value at this time.	1 January 2017	1 July 2017
AASB 2016-2 Disclosure Initiative: Amendments to AASB 107	The amendments require entities to provide disclosures about changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.	1 January 2017	1 July 2017
AASB 2016-5 Clarification and Measurement of Share-based Payment Transactions	This standard clarifies how to account for certain types of share-based payments, including: <ul style="list-style-type: none"> • The effect of vesting and non-vesting conditions on the measurement of cash-settled share-based payments • A modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. <p>The consolidated entity will apply the standard to any applicable share-based payments it makes after the date of application.</p>	1 January 2018	1 July 2018
AASB 2017-1 Transfers of Investment Property, Annual Improvements 2014-16 Cycle and Other Amendments	The amendments clarify certain requirements in various standards, including measuring and associate or joint venture at fair value [AASB 128].	1 January 2018	1 July 2018

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounting Policies

(a) Revenue

Interest

Interest revenue is recognised on an accruals basis.

Government grants

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

Other revenue

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

(b) Income tax

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

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

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

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

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

AUSCANN GROUP HOLDINGS LTD

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounting Policies (continued)

(c) Goods and services tax (GST)

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

(d) Cash and cash equivalents

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

(e) Other receivables

Other receivables are recognised at amortised cost, less any provision for impairment.

(f) Plant and equipment

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

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

Office equipment	4 years
------------------	---------

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

(g) Interests in joint ventures

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

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

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

(h) Trade and other payables

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether or not billed, and are stated at cost.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounting Policies (continued)

(i) Employee benefits

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

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

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

(j) Issued capital

Ordinary shares are classified as equity.

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

(k) Impairment

The carrying amounts of the consolidated entity's assets other than deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment, and if so, the asset's recoverable amount is estimated.

An impairment loss is recognised in profit or loss unless an asset has been previously revalued, in which case the impairment loss is recognised as a reversal to the extent of the previous revaluation with the balance remaining through the profit and loss.

Impairment of receivables is not recognised until objective evidence is available that a loss event has occurred. The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017**

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounting Policies (continued)

(l) 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.

(m) Share-based payments

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

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

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

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

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounting Policies (continued)

(n) Comparatives

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

(o) Current and non-current classification

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

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

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

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

(p) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of AusCann Group Holdings Ltd ("the Company" or "parent entity") as at 30 June 2017 and the results of its controlled entity for the year then ended. AusCann Group Holdings Ltd and its controlled entity together are referred to in these financial statements as the "consolidated entity".

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

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

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

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

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

(q) Critical accounting estimates and judgements

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

Share-based payments

The consolidated entity measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using a binomial model, taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amount of assets and liabilities with the next annual reporting period, but may impact on profit or loss and equity.

Impairment of non-financial assets

The consolidated entity assesses impairment of non-financial assets at each reporting date by evaluating conditions specific to the consolidated entity and to the particular asset that may lead to impairment. If an impairment trigger exists, the recoverable amount of the asset is determined. This involves value-in-use calculations, which incorporate key estimates and assumptions.

Income taxes

Judgement is required in assessing whether deferred tax assets are recognised in the statement of financial position. Deferred tax assets are recognised only when it is considered probable that they will be recovered via the generation of sufficient future taxable profits.

Estimation of useful lives of assets

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

Employee benefits provision

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

Valuation of joint venture assets

The consolidated entity has a 50% interest in DayaCann, which is a for-profit joint venture established to grow medicinal cannabis in Chile. An independent valuation as at 30 June 2017 has been undertaken of the biological assets, being inventory and mother plants. These valuations have been conducted in accordance with applicable accounting standards, in particular AASB13 *Fair Value Measurement* and AASB141 *Agriculture*. The significant assumptions used in determining the fair value of medicinal cannabis plants in the valuation have been outlined in Note 8 of this report: 'Interest in Joint Venture'.

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017**

	2017 \$	2016 \$
NOTE 2: OTHER INCOME AND EXPENSES		
Other income		
Exclusivity fee	250,000	-
R&D income	10,396	-
	<u>260,396</u>	<u>-</u>
Other expenses		
Licenses and permits	98,657	-
ASIC, ASX and share registry fees	88,248	979
Advertising and marketing	76,943	15,834
Occupancy expenses	38,354	-
Other expenses	259,299	72,857
	<u>561,501</u>	<u>89,670</u>
Employee benefits expense includes:		
Superannuation	46,203	16,842

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017**

	2017 \$	2016 \$
NOTE 3: INCOME TAX EXPENSE		
Reconciliation between tax expense and pre-tax profit		
Loss before tax	(14,137,177)	(5,811,072)
Income tax benefit calculated at 27.5% (2016: 28.5%)	(3,887,724)	(1,656,156)
Adjusted for:		
Listing fee (excess deemed consideration on acquisition)	1,968,809	-
Share-based payments	1,011,449	1,425,304
Share of DayaCann loss	138,632	-
Impairment expense	-	16,023
Other non-deductible expenses	119,404	17,618
Tax losses not recognised	649,430	197,211
Income tax expense	-	-

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

Deferred tax assets

Business-related costs	405,150	114,591
Accrued expenses and payables	6,994	1,626
Provisions	14,213	3,467
Carry-forward revenue tax losses	891,355	280,807
Deferred tax assets used to offset deferred tax liabilities	(4,814)	(1,729)
Deferred tax assets not recognised	(1,312,898)	(398,762)
	-	-

Deferred tax liabilities

Accrued interest	4,814	1,729
Deferred tax assets used to offset deferred tax liabilities	(4,814)	(1,729)
	-	-

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

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

The consolidated entity has tax losses arising in Australia of \$3,241,290 (2016: \$985,289) that are available indefinitely for offset against future taxable profits, subject to meeting eligibility criteria within the Income Tax Assessment Act. Net deferred tax assets have not been brought to account as it is not probable within the immediate future that taxable profits will be available against which the deferred tax assets could be recognised.

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017**

	2017	2016
	\$	\$

NOTE 4: EARNINGS PER SHARE

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

Basic loss attributable to ordinary equity holders of the parent	14,137,177	5,811,072
	Number	Number
Weighted average number of ordinary shares used in the calculation of basic and diluted earnings per share	1,535,675,977	1,977,067,146 *

* The 2016 weighted average number of shares is reported on a post-conversion basis.

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

NOTE 5: SEGMENT DISCLOSURES

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

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

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

NOTE 6: CASH AND CASH EQUIVALENTS

	\$	\$
Cash at bank and in hand	15,076,882	2,960,890
	<u>15,076,882</u>	<u>2,960,890</u>

NOTE 7: OTHER CURRENT ASSETS

GST receivable	121,428	4,309
Accrued interest	17,504	6,067
Prepayments	2,228	6,262
	<u>141,160</u>	<u>16,638</u>

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017**

NOTE 8: INTEREST IN JOINT VENTURE

The consolidated entity has a 50% interest in DayaCann which is a for-profit joint venture established to grow medicinal cannabis in Chile. As the entity is a jointly controlled entity it has been treated as a joint venture under AASB11 *Joint Arrangements*, with the consolidated entity's investment in DayaCann accounted for using the equity method in the consolidated financial statements. An independent valuation as at 30 June 2017 has been undertaken of the biological assets, being inventory and mother plants, and plant and equipment.

The significant management estimates and assumptions used in determining the value for financial reporting purposes of medicinal cannabis inventory are as follows:

- 444 kg of dried flower were owned by DayaCann at valuation date;
- costs to sell were estimated by management to be 2% of the selling price;
- selling price per gram of inventory at valuation date is estimated by management to be \$1.96 (US\$1.50) per gram in consideration of Cannabis Benchmarks US price per gram of medicinal cannabis. Management consequently expects the retail price for the product will be \$3.91 (US\$3) per gram approximately based on discussions held with potential customers. Management has applied a 50% discount to the expected retail price of \$3.91 (US\$3) per gram to reflect the wholesale price of \$1.96 (US\$1.50) per gram;
- there is a risk of spoilage and wastage in the pre-harvest stage of 4%, which has been determined based on management's experience with growing and harvesting produce;
- estimate of percentage of costs incurred compared to the total costs incurred at the point of harvest;
- estimate of percentage of costs incurred for each stage of plant growth; and
- estimate of total costs incurred post-harvest.

The significant management estimates and assumptions used in determining the value for financial reporting purposes of mother plants are as follows:

- estimated total costs incurred to grow the plants;
- estimate of useful life and age of plants; and
- estimate of plant salvage value.

On average, the grow cycle is 13 weeks. All plants were harvested as agricultural produce (i.e. medicinal cannabis). Management estimates the harvest yields for the plants at various stages of growth. These estimates are, by their nature, subject to change. From November 2016 to June 2017, DayaCann produced 444 kg of dried flowers (buds). At the valuation date, there were no plants in the growing phase that are expected to produce a harvest. A total of 52 mother plants, each seven months old, were owned by DayaCann at valuation date with an average useful life of two years, with minimal salvage value. Mother plants can produce multiple harvests. The time frame from when mother plants are unpacked up to the time clones have been harvested is approximately five months. For this valuation, the amortisation period was assessed as two months for the existing plants.

As at 30 June 2017, included in the net realisable carrying value of inventories was \$739,495 in dried flower and \$15,515 in mother plants.

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017****NOTE 8: INTEREST IN JOINT VENTURE (continued)**

Summarised statement of financial position of DayaCann:

	2017 \$	2016 \$
Cash and cash equivalents	57,028	-
Trade and other receivables	545,095	-
Inventories	755,010	-
Other current assets	21,243	-
Plant and equipment	103,509	-
Deferred tax assets	70,201	-
Trade and other payables	(282,279)	-
Provisions for employee benefits	(4,225)	-
Deferred tax liabilities	(104,332)	-
Net assets / equity	<u>1,161,250</u>	-
AusCann's 50% share of DayaCann's net assets	<u>580,625</u>	-
AusCann's carrying amount of the investment in DayaCann	<u>580,625</u>	-

Summarised statement of profit or loss of DayaCann:

Other income	417,426	-
Administration costs	(267,764)	-
Amortisation of intangibles	(1,118,630)	-
Tax expense	(39,268)	-
Loss for the period	<u>(1,008,236)</u>	-
AusCann's 50% share of DayaCann's loss for the period	<u>(504,118)</u>	-

The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Intangible assets with indefinite useful lives are comprised of acquired product rights and brand names, which are carried at cost less accumulated impairment losses.

NOTE 9: TRADE AND OTHER PAYABLES

Trade payables and accrued expenses	652,939	57,917
PAYG and superannuation payable	79,755	32,803
	<u>732,694</u>	<u>90,720</u>

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

NOTE 10: OTHER CURRENT LIABILITIES

Unearned income	-	<u>250,000</u>
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NOTE 11: EMPLOYEE ENTITLEMENTS

<i>Current</i>		
Provision for annual leave	<u>51,682</u>	<u>12,165</u>

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

NOTE 12: ISSUED CAPITAL

	2017	2016	2017	2016
	\$	\$	Number of Shares	Number of Shares*
(a) Ordinary shares – fully paid, net of costs	33,519,536	5,219,448	271,372,772	2,127,158,108
(b) Convertible notes, net of costs	-	2,972,080		
	<u>33,519,536</u>	<u>8,191,528</u>		

* The 2016 number of shares is reported on a post-conversion basis. Each share was divided into 1,420,947.2923 shares on 31 August 2016.

(a) Ordinary shares – fully paid

Movements in ordinary share capital

Details	Date	Number	\$
Opening balance	30 June 2015	1,174	820,210
Share-based payment	9 May 2016	323	4,399,238
Closing balance	30 June 2016	<u>1,497</u>	<u>5,219,448</u>
Conversion of number of shares	31 Aug 2016	2,127,156,611	-
Conversion of convertible notes	28 Sep 2016	805,332,528	2,972,080
Issue of shares to Canopy	28 Sep 2016	1,692,360	-
Acquisition of former AusCann Group Holdings Ltd	19 Jan 2017	146,709,182	6,023,624
Elimination of former AusCann Group Holdings Ltd shares upon reverse acquisition	19 Jan 2017	(2,934,182,996)	-
Shares on issue in former TWH Holdings Ltd at acquisition date	19 Jan 2017	30,117,785	-
Public offer	19 Jan 2017	25,000,000	5,000,000
Share-based payments to advisors	19 Jan 2017	14,521,229	2,904,246
Conversion of performance shares and rights	10 May 2017	31,024,576	391,192
Placement	24 & 25 May 2017	24,000,000	12,000,000
Share issue costs	Jan & May 2017	-	(991,054)
Closing balance	30 June 2017	<u>271,372,772</u>	<u>33,519,536</u>

Ordinary shares

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

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

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

NOTE 12: ISSUED CAPITAL (continued)

(b) Convertible notes

Convertible notes to the value of \$3,322,000 were issued during the year ended 30 June 2016. Issue costs relating to these convertible notes totalled \$349,920. They were converted into ordinary shares on 28 September 2016.

(c) Performance Shares

28,230,345 performance shares were issued on acquisition. These shares converted to ordinary shares upon satisfaction of the performance conditions on 10 May 2017, when the consolidated entity was granted a license to cultivate medical cannabis under the *Narcotic Drugs Act 1967*.

NOTE 13: RESERVES

Share-based payments reserve

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

Movements in share-based payments reserve:

	2017	2016
	\$	\$
Opening balance	601,827	-
Expired share-based payments (refer to Note 15)	(601,827)	-
Performance rights issued to advisors (refer to Note 15)	391,192	-
Options issued to former directors (refer to Note 15)	16,995	-
Options issued to advisors (refer to Note 15)	365,565	-
Options issued to Canopy shareholders (refer to Note 15)	886,076	601,827
Performance rights converted to ordinary shares	(391,192)	-
	<u>1,268,636</u>	<u>601,827</u>

Foreign currency translation reserve

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

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

NOTE 14: ACQUISITION OF AUSCANN OPERATIONS PTY LTD

AusCann Group Holdings Ltd (formerly TW Holdings Limited) acquired 100% of the shares of AusCann Operations Pty Ltd (formerly AusCann Group Holdings Ltd) on 19 January 2017 by issuing 146,709,182 ordinary shares and 28,230,345 performance shares to AusCann and Canopy shareholders and convertible note holders, and 7,677,639 options expiring 19 January 2020 to Canopy shareholders. Refer to Note 15 for further details of the options issued.

As described in the accounting policy in Note 1, the legal subsidiary AusCann Operations Pty Ltd was deemed to be the acquirer for accounting purposes as it obtained control of the legal parent. The transaction was not deemed to be a business combination, as TW Holdings Ltd was not considered to be a business under AASB 3: *Business Combinations*.

The transaction was therefore accounted for under AASB2: *Share-based Payments*, whereby AusCann Operations Pty Ltd was deemed to have issued shares in exchange for the net assets of AusCann Group Holdings Ltd, together with AusCann Group Holdings Ltd's listing status.

The value of deemed shares issued has been determined as the notional number of equity instruments that the shareholders of AusCann Operations Pty Ltd would have had to issue to AusCann Group Holdings Ltd to give the owners of AusCann Group Holdings Ltd the same percentage ownership in the combined entity. This has been determined to be \$6,909,700.

The listing status does not qualify for recognition as an intangible asset and has therefore been expensed in profit or loss as a listing fee, calculated as follows:

	\$
Deemed consideration	6,909,700
Negative net fair value of assets and liabilities acquired	249,607
Listing fee (deemed excess consideration)	<u>7,159,307</u>

The pre-acquisition equity balances of AusCann Group Holdings Ltd were eliminated against this increase in share capital of \$7,159,307 on consolidation.

The fair values of the identifiable assets and liabilities of AusCann Group Holdings Ltd as at the date of acquisition were:

	\$
Assets	
Cash	36,690
GST receivable	31,922
Prepayments	24,662
Liabilities	
Trade and other payables	(177,971)
Loan from AusCann Operations Pty Ltd	(164,910)
Total identifiable net deficiency at fair value	<u>(249,607)</u>

Costs related to the acquisition

Costs related to the acquisition of \$283,315 were incurred by AusCann Group Holdings Ltd (formerly TW Holdings Limited) prior to acquisition date. Further acquisition-related costs of \$408,193 in cash and \$3,295,438 in share-based payments were incurred by the consolidated entity post-acquisition. Refer to Note 15 for details of the share-based payments.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

NOTE 15: SHARE-BASED PAYMENTS

Share-based payments during the year ended 30 June 2017

(a) **Ordinary shares issued to advisors**

14,521,229 ordinary shares were issued to advisors on 19 January 2017. The fair value of each share was deemed to be 20.00 cents, the price at which the Company raised capital at the same time as the reverse acquisition.

(b) **Performance rights issued to advisors**

2,794,231 performance rights were issued to advisors on 19 January 2017. The fair value of each right was deemed to be 14.00 cents per right, taking into account the following assumptions:

Expiry date	19 July 2018
Exercise price	Nil
Deemed spot price	\$0.20
Expected volatility	90%
Dividend yield	Nil
Risk-free rate	1.61%
Likelihood of achieving performance conditions	70%

(c) **Director options**

150,000 options were issued to former directors on 19 January 2017. The fair value of each option was calculated at 11.33 cents per option using a binomial model and the following assumptions:

Expiry date	19 January 2020
Exercise price	\$0.21
Deemed spot price	\$0.20
Expected volatility	90%
Dividend yield	Nil
Risk-free rate	2.01%

(d) **Options issued to Canopy shareholders**

7,677,639 options were issued to Canopy shareholders on 19 January 2017. The fair value of each option was calculated at 11.54 cents per option using a binomial model and the following assumptions:

Expiry date	19 January 2020
Exercise price	\$0.20
Deemed spot price	\$0.20
Expected volatility	90%
Dividend yield	Nil
Risk-free rate	2.01%

(e) **Options issued to advisors**

1,500,000 options were issued to advisors in consideration of investor relations services on 11 April 2017. The fair value of each option was calculated at 24.37 cents per option using a binomial model and the following assumptions:

Expiry date	11 April 2018
Exercise price	\$0.936
Spot price	\$0.803
Expected volatility	90%
Dividend yield	Nil
Risk-free rate	1.67%

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

NOTE 15: SHARE-BASED PAYMENTS continued

The expense arising from share-based payments was \$3,677,998 (2016: \$5,001,065), relating to ordinary shares, performance rights and options issued to advisors and former directors.

	\$
<i>Share-based payments expensed:</i>	
Ordinary shares issued to advisors (refer to Note 12(a))	2,904,246
Performance rights issued to advisors (refer to Note 13)	391,192
Options issued to former directors (refer to Note 13)	16,995
Options issued to advisors (refer to Note 13)	365,565
	3,677,998

The options issued to Canopy shareholders (refer to Note 13) formed part of the consideration for the acquisition and the \$886,076 value of those options formed part of the listing fee (excess deemed consideration on acquisition).

Share-based payments during the year ended 30 June 2016

75 options (pre-conversion) were issued to Canopy shareholders on 9 May 2016. The fair value of options granted was calculated at \$8,024 using a binomial model and the following assumptions:

Expiry date	9 May 2019
Exercise price	\$13,620
Expected volatility	90%
Dividend yield	Nil
Risk-free rate	1.58%

These options were converted on 31 August 2016 to 153,552,779 options with an exercise price of \$0.01. They were cancelled and replaced with the options issued to Canopy shareholders described in Note 15(d).

The following table illustrates the number and weighted average exercise prices (WAEP) of share options granted as share-based payments on issue. The 2016 options are shown on a post-conversion basis.

	2017 number	2017 WAEP (\$)	2016 number	2016 WAEP (\$)
Outstanding 1 July	153,552,779	0.01	-	-
Granted during the year	9,327,639	0.32	153,552,779	0.01
Exercised during the year	-	-	-	-
Cancelled during the year	(153,552,779)	(0.01)	-	-
Outstanding 30 June	9,327,639	0.32	153,552,779	0.01

The weighted average remaining contractual life for the share-based payment options outstanding as at 30 June 2017 was 2.24 years (2016: 2.82 years).

The range of exercise prices for share-based payment options outstanding as at 30 June 2017 was \$0.20 to \$0.936 (2016: \$0.01).

AUSCANN GROUP HOLDINGS LTD

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

NOTE 16: COMMITMENTS

The consolidated entity had no commitments at 30 June 2017 or 30 June 2016.

NOTE 17: RELATED PARTY TRANSACTIONS

Key management personnel

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

	2017	2016
	\$	\$
Short-term benefits ¹	726,224	437,702
Post-employment benefits	38,733	16,843
Share-based payments ¹	793,535	-
	<u>1,558,492</u>	<u>454,545</u>

- 1 Short-term benefits and share-based payments include amounts paid to directors for consulting services in relation to the 2017 acquisition and the 2016 issue of convertible notes.

Transactions with related parties

	Amounts recognised for services	Amounts owed at 30 June
	\$	\$
Year ended 30 June 2017		
Biologica Ventures Pty Ltd ¹	1,228,576	47,667
Mal Washer Nominees Pty Ltd ²	38,354	2,781
Year ended 30 June 2016		
Biologica Ventures Pty Ltd ¹	99,660	-

- 1 Biologica Ventures Pty Ltd provides consulting services to the consolidated entity. The director of Biologica Ventures Pty Ltd is Dr Stewart Washer, who is the son of chairman Dr Mal Washer and brother of managing director Elaine Darby. \$776,540 was paid in the form of ordinary shares and performance rights. Refer to Note 15 for details of the share-based payments.

- 2 Mal Washer Nominees Pty Ltd provides office space to the consolidated entity on a monthly tenancy basis. The directors of Mal Washer Nominees Pty Ltd are chairman Dr Mal Washer and managing director Elaine Darby.

Terms and conditions

All transactions were made on normal commercial terms and conditions and at market prices.

AUSCANN GROUP HOLDINGS LTD

ABN 72 008 095 207

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017****NOTE 18: NOTES TO THE STATEMENT OF CASH FLOWS****(a) Cash and cash equivalents**

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

Reconciliation of operating loss after tax to net cash used in operating activities

	2017	2016
	\$	\$
Operating loss after income tax	(14,137,177)	(5,811,072)
Adjusted for:		
Depreciation	121	181
Listing fee (excess deemed consideration on acquisition)	7,159,307	-
Share-based payments	3,677,998	5,001,065
Impairment of intangible assets	-	56,221
Share of DayaCann loss	504,118	-
<i>Changes in operating assets and liabilities</i>		
(Increase) / decrease in receivables	(99,861)	19,480
Increase / (decrease) in trade and other payables	157,602	74,466
Increase / (decrease) in other current liabilities	(250,000)	249,741
Increase / (decrease) in provisions	39,517	12,165
	<u>(2,948,375)</u>	<u>(397,753)</u>

Non-cash investing and financing activities

AusCann Group Holdings Ltd acquired 100% of the shares of AusCann Operations Pty Ltd on 19 January 2017 by issuing 146,709,182 ordinary shares and 28,230,345 performance shares to AusCann and Canopy shareholders and convertible note holders, and 7,677,639 options expiring 19 January 2020 to Canopy shareholders. Refer to Notes 14 and 15 for further details.

AUSCANN GROUP HOLDINGS LTD

ABN 72 008 095 207

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

NOTE 19: FINANCIAL INSTRUMENTS

Capital risk management

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

Financial risk management

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

Categories of financial instruments

	2017	2016
	\$	\$
<i>Financial Assets</i>		
Cash and cash equivalents	15,076,882	2,960,890
Other current assets (excluding prepayments)	138,932	10,376
<i>Financial Liabilities</i>		
Trade and other payables	732,694	90,720

Foreign currency risk

The consolidated entity undertakes certain transactions denominated in United States dollars and Canadian dollars and is exposed to foreign currency risk through foreign exchange rate fluctuations.

The consolidated entity's exposure to foreign currency risk at 30 June 2017 is shown in the following table.

	2017	2016
	\$	\$
<i>Financial Liabilities</i>		
Trade and other payables denominated in US Dollars	404,235	-
Trade and other payables denominated in Canadian Dollars	68,269	-

Foreign currency risk sensitivity analysis

The following sensitivity analysis is calculated using the foreign currency risk exposures in existence at the reporting date. The 5% sensitivity is based on reasonably possible changes over a financial year, using an observed range of actual historical rates, for the AUD/USD and AUD/CAD exchange rates.

At 30 June 2017, if the exchange rates had moved as illustrated in the table below, with all other variables held constant, post-tax profit and equity would have been affected as follows:

	2017	2016
	\$	\$
AUD/USD + 5 %	(19,249)	-
AUD/USD - 5 %	21,276	-
AUD/CAD + 5 %	(3,251)	-
AUD/CAD - 5 %	3,593	-

AUSCANN GROUP HOLDINGS LTD

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

NOTE 19: FINANCIAL INSTRUMENTS continued

Credit risk management

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

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

Fair value of financial instruments

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

The consolidated entity currently has no long-term financial assets or borrowings.

Interest rate risk management

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

Interest rate sensitivity analysis

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

At reporting date, if the interest rates had been 50 basis points higher or lower and all other variables were held constant, the consolidated entity's net profit would have been increased by \$75,384 and decreased by \$75,384 respectively (2016: \$14,804). This is attributable to the consolidated entity's exposure to interest rates on its variable rate deposits.

Liquidity risk management

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

Maturity profile of financial instruments

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

	Less than 1 year \$	1 to 5 years \$	5+ years \$	Total \$
2017				
<i>Financial Liabilities</i>				
Trade payables	732,694	-	-	732,694
	<hr/>	<hr/>	<hr/>	<hr/>
2016				
<i>Financial Liabilities</i>				
Trade payables	90,720	-	-	90,720
	<hr/>	<hr/>	<hr/>	<hr/>

AUSCANN GROUP HOLDINGS LTD

ABN 72 008 095 207

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

NOTE 20: CONTINGENT ASSETS AND LIABILITIES

The consolidated entity has entered into a non-binding heads of agreement with privately-owned, California-based company, Caziwell Inc. / Aunt Zelda's Group ("Aunt Zelda's") for exclusive access to the Aunt Zelda's brand and product range in the Australian and New Zealand markets. Under the key terms of this agreement, the consolidated entity must pay an ongoing royalty to Aunt Zelda's of 5% of sales revenue generated through the sale of Aunt Zelda's branded products.

There were no contingent assets or liabilities as at 30 June 2016.

NOTE 21: AUDITOR REMUNERATION

The auditor of the consolidated entity is PKF Mack.

a) Auditor remuneration – accounting parent entity (AusCann Operations Pty Ltd)

	2017	2016
	\$	\$
<i>Fees paid or payable to PKF Mack:</i>		
Audit or review of the financial report	-	15,200
Taxation services	5,150	2,500
Due diligence	-	3,250
Other services	-	10,225
	<u>5,150</u>	<u>31,175</u>

b) Auditor remuneration – legal parent entity (AusCann Group Holdings Ltd)

<i>Fees paid or payable to PKF Mack:</i>		
Audit or review of the financial report	38,450	-
Independent Accountant's Report	21,700	-
Taxation services	10,000	-
Other services	7,250	-
<i>Fees paid or payable to other audit firms:</i>		
Audit or review of the financial report	12,240	22,060
	<u>89,640</u>	<u>22,060</u>

AUSCANN GROUP HOLDINGS LTD

ABN 72 008 095 207

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017****NOTE 22: PARENT ENTITY DISCLOSURES**

AusCann Group Holdings Ltd (formerly TW Holdings Limited) is the legal parent entity.

	2017	2016
	\$	\$
Current assets	15,145,056	380,550
Total assets	15,145,056	380,550
Current liabilities	(130,523)	(60,604)
Total liabilities	(130,523)	(60,604)
Issued capital	133,697,530	81,099,059
Share-based payment reserve	1,268,636	-
Accumulated losses	(119,951,633)	(80,779,113)
Total equity	<u>15,014,533</u>	<u>319,946</u>
Loss of the parent entity	(39,172,520)	(652,426)
Total comprehensive loss of the parent entity	(39,172,520)	(652,426)

Legal subsidiaries

	Country of Incorporation	Percentage interest		Principal activities
		2017 %	2016 %	
AusCann Operations Pty Ltd (formerly AusCann Group Holdings Ltd)	Australia	100%	-	Medicinal cannabis research, development and cultivation

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

AUSCANN GROUP HOLDINGS LTD

ABN 72 008 095 207

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

NOTE 23: EVENTS SUBSEQUENT TO REPORTING DATE

AusCann was granted its manufacturing licence in August 2017, making the consolidated entity one of the first to have a complete and fully-Australian supply chain to provide medicinal cannabis products to patients. The consolidated entity's domestic licence to operate has also been expanded with the granting of a cultivation and production licence to the AusCann – Tasmanian Alkaloids strategic partnership.

Supporting the Chief Medical Officer and Medical Outreach Program, AusCann has appointed three Medical Liaison Managers, operating nationally, to provide scientific education to the medical community and facilitate data discussions in therapeutic areas relevant to the consolidated entity. Commencing early September, the Outreach Team will be conducting a second series of education seminars in Adelaide, Sydney, Melbourne and Perth, as well as in-field medical training of clinicians.

A consultation by the Office of Drug Control (ODC) seeking comment on the export of Australian cultivated and manufactured medicinal cannabis products closed in July 2017. Export of domestic product is not currently allowed but was envisaged in the second reading speech in Parliament outlining the Narcotic Drugs Amendment Act 2016, allowing for 'a provision for exports to be addressed at a later date'. On 8 August 2017, the ODC announced that it had received over 40 written submission and that there was overwhelming support for allowing export. AusCann remains watchful of developments in this space.

On 10 August 2017, 7,500,000 options were issued to an investor relations advisor.

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

DIRECTORS' DECLARATION

The Directors of the consolidated entity declare that:

1. The financial statements and notes are in accordance with the Corporations Act 2001, including:
 - (a) giving a true and fair view of the financial position of the consolidated entity as at 30 June 2017 and of its performance, for the year ended on that date; and
 - (b) complying with Australian Accounting Standards, and the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
 - (c) complying with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in Note 1 to the financial report.
2. There are reasonable grounds to believe that the consolidated entity will be able to pay its debts as and when they become due and payable.
3. The directors have been given the declarations required by section 295A of the Corporations Act 2001.

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



Malcolm James Washer
Chairman

28 September 2017

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF AUSCANN GROUP HOLDINGS LTD

Report on the Financial Report

Opinion

We have audited the accompanying financial report of AusCann Group Holdings Ltd (the company), which comprises the consolidated statement of financial position as at 30 June 2017, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the company and the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

In our opinion the financial report of AusCann Group Holdings Ltd is in accordance with the Corporations Act 2001, including:

- i) Giving a true and fair view of the consolidated entity's financial position as at 30 June 2017 and of its performance for the year ended on that date; and
- ii) Complying with Australian Accounting Standards and the Corporations Regulations 2001.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement. Our responsibilities under those standards are further described in the Auditor's Responsibility section of our report.

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

Independence

We are independent of the consolidated entity in accordance with the Corporations Act 2001 and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (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.

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Key Audit Matters

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

1. Reverse Acquisition Accounting

Why significant

As described in Note 1 and 14, on 19 January 2017, the consolidated entity completed its acquisition of 100% of AusCann Operations Pty Ltd ('AusCann'). The acquisition resulted in the shareholders of AusCann obtaining control of the combined entity. In addition, the board of directors of the entity was restructured with AusCann nominees.

The combination of these factors resulted in the acquisition transaction being treated as a reverse acquisition for accounting purposes. Consequently, the Company (the legal parent) has been accounted for as the accounting subsidiary and AusCann (the legal subsidiary) has been accounted for as the accounting parent.

The result of applying the above accounting methodology for the reverse acquisition was the recognition of excess consideration of \$7,159,307 in the statement of profit or loss and other comprehensive income.

We considered this transaction to be a key audit matter because of the degree of complexity involved in reverse acquisitions, the materiality of the matter to the users of the financial statements as a whole and the degree of audit effort directed to this area.

How our audit addressed the key audit matter

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

- We evaluated management's assessment that the appropriate accounting treatment for the transaction is a reverse acquisition under accounting standards
- We tested the methodology, inputs and mathematical accuracy of the calculations of the consolidated entity for the deemed accounting consideration;
- We obtained the signed contractual agreements relating to the reverse acquisition and reviewed significant contract terms relevant to the accounting and disclosure in the financial statements;
- We reviewed the treatment of the reverse acquisition on consolidation and ensured the transaction had been accounted for correctly within the consolidated financial statements of the consolidated entity as at 30 June 2017;
- We performed specific procedures on the opening balance sheet of the accounting subsidiary prepared as at the date of acquisition; and
- We assessed the appropriateness of the disclosures within the financial report at notes 1 and 14.

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2. Valuation of Investment in DayaCann Joint Venture

Why significant

The consolidated entity has a 50% interest in DayaCann which is a for-profit joint venture established to grow medicinal cannabis in Chile. The value of the investment in the consolidated entity as at 30 June 2017 is \$580,625.

The consolidated entity's accounting policy in respect of Interest in Joint Ventures is outlined in Note 1(g).

The consolidated entity's accounting judgement and estimates involved in DayaCann, in particular in relation to the valuation of the inventory and biological assets (mother plants) within DayaCann are outlined in notes 1(q) and 8 to the financial report of the consolidated entity.

The estimates and judgements in relation to these items has a significant impact on the DayaCann's position and performance, which effects the consolidated entity's investment in DayaCann and its share of the loss recognised in the Consolidated Statement of Profit or Loss and Other Comprehensive Income totalling \$504,118.

How our audit addressed the key audit matter

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

- We assessed the reasonableness of the methodologies, inputs and assumptions of the independent expert valuation report obtained relating to the inventories, mother plants and fixed assets;
- Ensured the above independent expert valuation report was in accordance with Australian Accounting Standards AASB 102 Inventories, AASB 141 Agriculture, AASB 116 Property, Plant and Equipment and AASB 13 Fair Value Measurement;
- We reviewed the terms and conditions within various relevant agreements and growing permits to determine that the capitalisation and amortisation of intangibles was in accordance with Australian Accounting Standards AASB 138 Intangibles;
- Assessed the appropriateness of the related disclosures in notes 1(g), 1(q) and 8.

3. Value of Share Based Payments

Why significant

For the year ended 30 June 2017 the value of share based payments issued and recognised in the Consolidated Statement of Profit or Loss and Other Comprehensive Income totalled \$3,677,998, as disclosed in Note 15. In addition, options to the value of \$886,076 were also issued as part of the acquisition consideration and form part of the expensed listing fee. The consolidated entity's accounting judgement and estimates in respect of share based payments is outlined in Note 1(m) and 1(q). Significant judgement is required in relation to:

- The valuation method used in the model; and
- The assumptions and inputs used within the model.

How our audit addressed the key audit matter

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

- We assessed the reasonableness of the assumptions used in the valuation of the share based payments expense as well as testing the accuracy of the calculations themselves;
- We also agreed the terms of the share based payments to agreements to ensure that the valuations were based on the terms of those agreements; and
- Assessed the appropriateness of the related disclosures in Notes 1(m) and 1(q) and 15.

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Other Information

Other information is financial and non-financial information in the annual report of the consolidated entity which is provided in addition to the Financial Report and the Auditor's Report. The directors are responsible for Other Information in the annual report.

The Other Information we obtained prior to the date of this Auditor's Report was the Chairman's Letter, Letter from the Managing Director, Director's Report, and Additional ASX Information. The remaining Other Information, if any, is expected to be made available to us after the date of the Auditor's Report.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, the auditor does not and will not express an audit opinion or any form of assurance conclusion thereon, with the exception of the Remuneration Report.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we 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.

We are required to report if we conclude that there is a material misstatement of this Other Information in the Financial Report and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

Directors' Responsibilities for the Financial Report

The Directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the Directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 1, the Directors also state, in accordance with Australian Accounting Standard AASB 101 Presentation of Financial Statements, that the financial report complies with International Financial Reporting Standards.

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

Auditor's Responsibilities for the Audit of the Financial Report

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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report.

The procedures selected depend on the auditor's judgement, including assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial report.

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

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

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

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

The Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements. We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

Report on the Remuneration Report

Opinion

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2017.

In our opinion, the Remuneration Report of AusCann Group Holdings Ltd for the year ended 30 June 2017, complies with section 300A of the Corporations Act 2001.

Responsibilities

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

PKF Mack

PKF MACK

Shane Cross

SHANE CROSS
PARTNER

28 SEPTEMBER 2017
WEST PERTH
WESTERN AUSTRALIA

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ADDITIONAL ASX INFORMATION

The following additional information is required by the Australian Securities Exchange. The information is current as at 13 September 2017.

(a) Distribution schedule and number of holders of equity securities as at 13 September 2017

	1 – 1,000	1,001 – 5,000	5,001 – 10,000	10,001 – 100,000	100,001 – and over	Total
Fully Paid Ordinary Shares	3,022	5,093	1,746	1,877	159	11,897
Unlisted Options – 20c 19.01.2020	-	-	-	-	1	1
Unlisted Options – 21c 19.01.2020	-	-	-	3	-	3
Unlisted Options – 93.6c 11.4.2018	-	-	-	-	2	2
Unlisted Options – 60c 31.12.2020	-	-	-	-	1	1
Unlisted Options – 70c 31.12.2020	-	-	-	-	1	1
Unlisted Options – 80c 31.12.2020	-	-	-	-	1	1

The number of holders holding less than a marketable parcel of fully paid ordinary shares as at 13 September 2017 is 2,453.

(b) 20 largest holders of quoted equity securities as at 13 September 2017

The names of the twenty largest holders of fully paid ordinary shares (ASX code: AC8) as at 13 September 2017 are:

Rank	Name	Shares	% of Total Shares
1	CANOPY GROWTH CORPORATION	27,465,000	10.12
2	ACN 161 995 204 PTY LTD	16,943,715	6.24
3	GOLSPIE PTY LTD	16,943,715	6.24
4	GEMELLI NOMINEES PTY LTD <GEMELLI FAMILY A/C>	15,771,393	5.81
5	MAL WASHER NOMINEES PTY LTD	12,707,786	4.68
6	MS ELAINE LUCY DARBY	11,606,445	4.28
7	DR STEWART JAMES WASHER + DR PATRIZIA DERNA WASHER	6,353,893	2.34
8	CELTIC CAPITAL PTY LTD <CELTIC CAPITAL A/C>	5,883,500	2.17
9	CITICORP NOMINEES PTY LIMITED	5,616,115	2.07
10	MR WARREN SIDNEY LANGMAN	4,235,928	1.56

Rank	Name	Shares	% of Total Shares
11	MR ANTHONY NICHOLAS NAGY	4,235,928	1.56
12	BIOLOGICA VENTURES PTY LTD	4,080,230	1.50
13	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	4,020,062	1.48
14	DANNY STEPHENS INVESTMENTS PTY LTD <DANNY STEPHENS FAMILY A/C>	2,561,789	0.94
15	CPS CAPITAL GROUP PTY LTD	2,521,500	0.93
16	CANOPY GROWTH CORPORATION	2,400,000	0.88
17	MR JASON PETERSON + MRS LISA PETERSON <J & L PETERSON S/F A/C>	2,142,401	0.79
18	J P MORGAN NOMINEES AUSTRALIA LIMITED	2,054,292	0.76
19	KHATAK PTY LTD <KHATAK A/C>	1,694,371	0.62
20	VANALL HOLDINGS PTY LTD <VANALL STAFF S/F A/C>	1,500,000	0.55
	TOTAL	150,738,063	55.52

Stock Exchange Listing: Listing has been granted for 129,257,557 fully paid ordinary shares of the Company on issue on the Australian Securities Exchange.

The unquoted securities on issue as at 13 September 2017 are detailed below in part (d).

(c) Substantial shareholders

Substantial shareholders in AusCann Group Holdings Ltd and the number of equity securities over which the substantial shareholder has a relevant interest as disclosed in substantial holding notices provided to the Company are listed below:

Name	Shares	% of Total Shares
Canopy Growth Corporation	23,032,917	10.65%
Golspie Pty Ltd	14,209,473	6.57%
ACN 161 995 204 Pty Ltd	14,209,473	6.57%
Gemelli Nominees Pty Ltd <Gemelli Family A/C>	13,226,331	6.11%

(d) Unquoted Securities

The number of unquoted securities on issue as at 13 September 2017:

Unquoted Security	Number on Issue
Fully Paid Ordinary Shares	142,115,215
Unlisted Options – exercisable at 20c expiring on 19.01.2020	7,677,639
Unlisted Options – exercisable at 21c expiring on 19.01.2020	150,000
Unlisted Options – exercisable at 93.6c expiring on 11.4.2018	1,500,000
Unlisted Options – exercisable at 60c expiring on 31.12.2020	2,500,000
Unlisted Options – exercisable at 70c expiring on 31.12.2020	2,500,000
Unlisted Options – exercisable at 80c expiring on 31.12.2020	2,500,000

(e) Holder Details of Unquoted Securities

Option holders that hold more than 20% of a given class of unquoted securities as at 13 September 2017 other than options issued under an employee incentive scheme:

Security	Name	Number of Securities
Unlisted Options – exercisable at 20c expiring on 19.01.2020	Canopy Growth Corporation	7,677,639
Unlisted Options – exercisable at 21c expiring on 19.01.2020	Nicholas Calder	50,000
Unlisted Options – exercisable at 21c expiring on 19.01.2020	Jimbzal Pty Ltd	50,000
Unlisted Options – exercisable at 21c expiring on 19.01.2020	Pathways Corporate Pty Ltd	50,000
Unlisted Options – exercisable at 93.6c expiring on 11.4.2018	Jay-V Inc	1,300,000
Unlisted Options – exercisable at 60c expiring on 31.12.2020	CG Nominees (Australia) Pty Ltd	2,500,000
Unlisted Options – exercisable at 70c expiring on 31.12.2020	CG Nominees (Australia) Pty Ltd	2,500,000
Unlisted Options – exercisable at 80c expiring on 31.12.2020	CG Nominees (Australia) Pty Ltd	2,500,000

(f) Restricted Securities as at 13 September 2017

The Company had the following restricted securities as at 13 September 2017:

Security	Escrow Period
9,408,069 Fully Paid Ordinary Shares	Under escrow until 19 January 2018.
132,707,146 Fully Paid Ordinary Shares	Under escrow until 3 February 2019.
7,677,639 Unlisted Options – exercisable at 20c expiring on 19.01.2020	Under escrow until 3 February 2019.
150,000 Unlisted Options – exercisable at 21c expiring on 19.01.2020	Under escrow until 3 February 2019.

(g) Voting Rights

All fully paid ordinary shares carry one vote per ordinary share without restriction.

Unquoted options have no voting rights.

(h) On-Market Buy-Back

The Company is not currently undertaking an on-market buy-back.

(i) Corporate Governance

The Board of AusCann Group Holdings Ltd is committed to achieving and demonstrating the highest standards of corporate governance. The Board is responsible to its shareholders for the performance of the Company and seeks to communicate extensively with shareholders. The Board believes that sound corporate governance practices will assist in the creation of shareholder wealth and provide accountability. In accordance with ASX Listing Rule 4.10.3, the Company has elected to disclose its corporate governance policies and its compliance with them on its website, rather than in the Annual Report. Accordingly, information about the Company's corporate governance practices is set out on the Company's website at <http://www.auscann.com.au/investor-centre/corporate-governance/>.

(j) Application of Funds

AusCann Group Holdings Ltd confirms that it has used its cash and assets (in a form readily convertible to cash) during the financial year in a manner which is consistent with the Company's business objectives.