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ABN 72 008 095 207

Appendix 4E and Preliminary

Unaudited Financial Report

30 June 2019

AUSCANN GROUP HOLDINGS LTD
ABN 72 008 095 207

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

Details of the reporting period and the previous corresponding period

- Reporting period – year ended 30 June 2019
- Previous corresponding period – year ended 30 June 2018

Results for announcement to the market

		%		\$
Revenues from ordinary activities	<i>Up</i>	267%	<i>to</i>	1,532,376
Loss from ordinary activities after tax attributable to members	<i>Down</i>	2%	<i>to</i>	7,649,221
Net loss from the period attributable to members	<i>Down</i>	2%	<i>to</i>	7,649,221
Final and interim dividends	-			
Record date for determining entitlements to dividends	N/A			

	Reporting period	Previous corresponding period
Net tangible asset backing per ordinary share	13.15 cents	5.10 cents

Commentary on results

The AusCann Group Holdings consolidated entity (AusCann) is pleased to report on its 2019 financial year.

AusCann made substantial progress during the year on its aim to become a leading pharmaceutical company focused on the development and commercialisation of cannabinoid-based medicines. The Company remained focused on advancing the development of its first product line - its reliable and consistent cannabis-based hard shell capsules for the treatment of chronic pain. AusCann aims to provide patients with improved health outcomes and quality of life, with first product expected to be released for clinical trials towards the end of 2019.

The Company remains well funded to execute on its strategy as a result of successfully completing a capital raising of \$33.4m via a share placement in July 2018, and a further \$1.9m via a share purchase plan in August 2018.

Leadership Transition

AusCann underwent leadership changes during the year. Ms Elaine Darby stepped down as Managing Director as part of the Company's transition from a licensing-based start-up to a product development and commercialisation focused pharmaceutical business. AusCann would like to thank Ms Darby for her invaluable contribution to the growth and development of the Company.

After an extensive international executive search, AusCann appointed Mr Ido Kanyon as CEO to guide the Company through this significant next phase of development and growth. Mr Kanyon, commenced on 22 May 2019, and is a highly experienced global pharmaceutical executive with more than 15 years of pharmaceutical and medical device business experience commercialising new pharmaceutical treatment options.

Successful completion of pilot production of first product line

AusCann made a significant R&D breakthrough with the successful completion of the product development of its final dose cannabinoid capsules. AusCann has developed a unique hard-shell capsule which provides consistent and stable dosages of the active cannabinoid ingredients, solving stability and dosing problems that exist with current oils and capsules on the market.

As part of the process, AusCann completed a production scale-up of the capsules in a Good Manufacturing Practice (GMP) environment. The scale up procedure includes all the steps required to move a pharmaceutical product from development to commercial manufacturing.

Established capabilities and partnerships across the whole supply chain

AusCann places strong emphasis on the development of partnerships across the supply chain to deliver superior value.

For the production of its capsules, AusCann appointed TGA licensed PCI Pharma to manufacture and release its proprietary solid hard-shell capsules for the treatment of chronic pain. This also led to the successful manufacturing of AusCann's first engineering batch of capsules from the manufacturer.

As part of the Company's strategy to de-risk and diversify its supply chain, a supply agreement was entered with MediPharm Labs Corporation, Canada's largest and most experienced supplier of purified, pharmaceutical grade cannabis extracts. The agreement is for the supply of high-grade cannabis resin to be used for AusCann's hard-shell cannabinoid capsules. During the period, MediPharm completed its first commercial shipment of medical cannabis concentrate to AusCann, representing the first ever bulk international shipment of active pharmaceutical ingredient (API) medical cannabis concentrate from Canada to Australia. The agreement strengthens AusCann's raw material supply chain with pharmaceutical grade cannabis resin being a critical component of the Company's manufacturing process.

Establishment of in-house product development facility

New proprietary product development is a key pillar of AusCann's growth, and the Company has invested in product development capabilities with the purchase of a dedicated 7,300m² Research & Development (R&D) facility located in Perth, Western Australia. The site was acquired for \$5.25 million and was fully funded from existing cash reserves. The new site will be an integrated facility accelerating pharmaceutical and novel dose form development activities, encompassing cultivation, extraction, new product development and manufacturing. The product development facility is a key point of differentiation for AusCann to further develop its cannabinoid-based pharmaceutical product pipeline.

Medical outreach program and distribution

AusCann places a strong emphasis on building solid relationships with healthcare professionals, providing doctors and health care practitioners with access to cannabinoid medical education resources and reliable clinical information on the use of cannabinoid medicines.

As part of its Medical Outreach Program, the Company released a series of online courses for Australian health professionals to support medical practitioners in Australia with the necessary information to confidently make decisions regarding the use of cannabinoid medicines. The education resources are led by Dr Danial Schecter, AusCann's Chief Medical Advisor and Director of Global Medical Services at Canopy Growth, the world's largest cannabis company by market capitalisation and revenue.

Chilean operation

DayaCann, AusCann's 50:50 joint venture with Fundación Daya in Chile, signed a non-binding MoU with Canadian listed medical cannabis company Khiron Life Sciences Corp (Khiron).

DayaCann will be supplying Khiron with high quality cannabinoid medicines whilst Khiron will provide funds to support the development of these activities, resulting in staged payments to DayaCann of USD\$1,200,000 (A\$1.67m).

DayaCann is the only commercial scale medical cannabis cultivation company in Chile which obtained medical cannabis production licences to complete two harvests yielding a total of over 1000kg of dried cannabis flower. The cultivation is done in a cost effective, outdoor growing, 30-hectare facility which holds an organic agriculture certification.

While this complements the joint venture's ongoing cultivation of cannabis plants material, the potential for disposal of existing inventory produced by DayaCann continues to be limited due to the ongoing government restrictions on the ability to export the product out of Chile. Until these restrictions are relaxed by the Chilean Government, the Company has chosen to conservatively impair the value of both the investment in DayaCann and the loan to DayaCann.

AusCann notes that on 12 August 2019 the Supreme Court of Chile confirmed the current prohibition on the export of medical cannabis outside of Chile. DayaCann continues to look at alternative pathways to pursue export licenses from the country. DayaCann remains confident in the prospects ahead as the global market

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for medical cannabis continues to grow with a number of Latin American countries having already approved the export of medical cannabis such as Argentina, Colombia and Uruguay.

In the meantime, the product is for use within Chile and is not affected by the export prohibition. DayaCann will continue to supply raw material for patients in Chile and engage with the regulatory bodies around the future export of cannabinoid-based medicines and raw material for the benefits of patients worldwide.

AusCann Board Changes

On 27 September 2018, experienced pharmaceutical executive, Dr Paul MacLeman, joined the Board as an Executive Director. He brings more than 25 years' experience in the life sciences sector and performed a key role during AusCann's leadership transition period acting as Interim CEO from 1 January 2019 to Mr Kanyon's official commencement on 22 May 2019.

Also during the period, Chief Operating and Financial Officer, Mr Quentin Megson, was appointed Joint Company Secretary of the Company, sharing the role with Ms Susan Hunter, AusCann's existing Company Secretary.

Trading in the US on the OTCQX Market

AusCann shares also commenced trading in the US on the OTCQX Market under the stock symbol ACNNF. This is expected to enable greater accessibility and enhanced liquidity for AusCann and increase the Company's international exposure with global investors.

Dividends

The Board has not declared dividends or made dividend payments in the periods ended 30 June 2018 and 2019. The Company does not have any dividend or distribution reinvestment plans in operation.

Details of entities over which control has been gained or lost

There have been no changes in control over entities in the year ended 30 June 2019.

Details of associates and joint venture entities

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

Foreign entities

Except for the 50% interest in DayaCann, there are no foreign entities.

Audit status

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

Financial report

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

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

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**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND
OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2019**

	Note	2019 \$	2018 \$
Interest revenue		861,770	235,064
Other income	1	670,606	53,814
Total Income		1,532,376	288,878
Employee benefits expense		(2,078,605)	(1,627,245)
Share-based payments expense		(57,943)	(2,712,500)
Consulting fees – directors		(120,000)	(90,000)
Consulting fees – other		(2,000,392)	(1,832,109)
Legal expenses		(188,912)	(205,807)
Travel and accommodation		(312,278)	(366,806)
Share of profit/(loss) of DayaCann	7	(667,100)	38,857
Impairment of loan to Dayacann		(1,347,293)	-
Depreciation expense		(56,242)	(30,774)
Other expenses	1	(2,352,832)	(1,130,802)
Total expenses		(9,181,597)	(7,957,186)
Loss before income tax expense		(7,649,221)	(7,688,308)
Income tax expense		-	-
Net loss for the year		(7,649,221)	(7,688,308)
Other comprehensive income, net of tax			
<i>Items that may reclassified subsequently to profit or loss:</i>			
Foreign currency translation	7	(29,367)	99,307
Total comprehensive loss for the year		(7,678,588)	(7,569,001)
Earnings per share			
Basic loss per share (cents per share)		(2.48)	(2.81)
Diluted loss per share (cents per share)		(2.48)	(2.81)

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

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**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2019**

	Note	2019 \$	2018 \$
CURRENT ASSETS			
Cash and cash equivalents	4	35,307,287	12,878,252
Other current assets	5	367,253	1,027,646
Total Current Assets		35,674,540	13,905,898
NON-CURRENT ASSETS			
Investment in DayaCann	7	-	696,467
Property, plant and equipment	6	7,193,235	109,806
Total Non-Current Assets		7,193,235	806,273
Total Assets		42,867,775	14,712,171
CURRENT LIABILITIES			
Trade and other payables	8	1,110,026	534,322
Employee entitlements	9	89,402	65,817
Total Current Liabilities		1,199,428	600,139
Total Liabilities		1,199,428	600,139
NET ASSETS		41,668,347	14,112,032
EQUITY			
Issued capital	10	75,452,467	39,328,101
Reserves		1,237,108	2,155,938
Accumulated losses		(35,021,228)	(27,372,007)
TOTAL EQUITY		41,668,347	14,112,032

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

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**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2019**

	Issued capital \$	Share- based payment reserve \$	Foreign currency translation reserve \$	Accumulated losses \$	Total \$
Balance at 1 July 2017	33,519,536	1,268,636	(69,940)	(19,703,699)	15,014,533
Loss after income tax for the period	-	-	-	(7,668,308)	(7,668,308)
Other comprehensive income for the period, net of tax	-	-	-	-	-
Foreign currency translation	-	-	99,307	-	99,307
	-	-	99,307	(7,668,308)	(7,569,001)
<i>Transactions with owners in their capacity as owners</i>	-	-	-	-	-
Issue of options	-	2,712,500	-	-	2,712,500
Conversion of options to ordinary shares	3,954,000	-	-	-	3,954,000
Exercised options	1,854,565	(1,854,565)	-	-	-
Balance at 30 June 2018	39,328,101	2,126,571	29,367	(27,372,007)	14,112,032
Balance at 1 July 2018	39,328,101	2,126,571	29,367	(27,372,007)	14,112,032
Loss after income tax for the period	-	-	-	(7,649,221)	(7,649,221)
Other comprehensive income for the period, net of tax	-	-	-	-	-
Foreign currency translation	-	-	(29,367)	-	(29,367)
	-	-	(29,367)	(7,649,221)	(7,678,588)
<i>Transactions with owners in their capacity as owners</i>	-	-	-	-	-
Issue of shares net of costs	33,670,432	-	-	-	33,670,432
Issue of performance rights	-	7,943	-	-	7,943
Conversion of options to ordinary shares	-	-	-	-	-
Exercised options	2,453,934	(897,406)	-	-	1,556,528
Balance at 30 June 2019	75,452,467	1,237,108	-	(35,021,228)	41,668,347

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

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**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2019**

	Note	2019 \$	2018 \$
CASH FLOW FROM OPERATING ACTIVITIES			
Interest received		848,597	213,287
Government grants and incentives		670,606	53,814
Payments to suppliers and employees		(6,487,580)	(5,052,102)
Net cash used in operating activities		(4,968,377)	(4,785,001)
CASH FLOW FROM INVESTING ACTIVITIES			
Payments for investment in Dayacann		-	(338,324)
Payments for loan to Dayacann		(639,878)	(766,287)
Payments for term deposits		-	(122,679)
Payments for land		(5,541,328)	
Payments for building improvements		(473,484)	
Payments for plant and equipment		(1,124,859)	(140,339)
Net cash used in investing activities		(7,779,549)	(1,367,629)
CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds from issue of shares and exercise of options		36,903,078	3,954,000
Payments for capital raising costs		(1,726,118)	-
Net cash from financing activities		35,176,960	3,954,000
Net increase in cash and cash equivalents		22,429,034	(2,198,630)
Cash and cash equivalents at the beginning of the financial year		12,878,253	15,076,882
Cash and cash equivalents at the end of the financial year	4	35,307,287	12,878,252

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

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**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019**

	2019 \$	2018 \$
NOTE 1: OTHER INCOME AND EXPENSES		
Other income		
R&D Grant income	670,606	53,814
	670,606	53,814

Other expenses

Total expenses include the following specific expenses:

Net foreign exchange gain/(loss)	-	-
Consumables	573,976	
Occupancy expenses	102,537	58,241
Insurance	111,016	42,593

NOTE 2: 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	7,678,588	7,668,308
	Number	Number
Weighted average number of ordinary shares used in the calculation of basic and diluted earnings per share	308,342,346	272,430,580

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 3: SEGMENT DISCLOSURES

At this stage of its development, the consolidated entity operates in one business segment, being the research and development of cannabinoid-based pharmaceuticals.

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 4: CASH AND CASH EQUIVALENTS

	\$	\$
Cash at bank and in hand	35,307,287	12,878,252
	35,307,287	12,878,252

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2019 2018

NOTE 5: OTHER CURRENT ASSETS

Accounts receivable	2,638	-
GST receivable	91,229	90,504
Accrued interest	34,707	21,534
Prepayments	103,500	74,014
Loan to DayaCann*	1,347,293	707,415
Less: Impairment of loan to DayaCann	(1,347,293)	
Short Term Deposits	135,179	134,179
	<u>367,253</u>	<u>1,027,646</u>

*The loan agreement between the Company and DayaCann includes the following key terms and provisions:

- Principal amount of USD\$968,901
- Company has preferential right to DayaCann product
- Principal currency is USD
- Valid for 1 year and can be extended through written agreement

NOTE 6: PROPERTY, PLANT AND EQUIPMENT

Land & Buildings	5,541,328	-
Building Improvements	473,484	-
Less: Amortisation	-	-
	<u>6,014,812</u>	
Computer Equipment – at cost	38,467	49,395
Less: Accumulated depreciation	(18,130)	(10,920)
	<u>20,337</u>	<u>38,475</u>
Furniture and Fittings – at cost	91,642	91,642
Less: Accumulated depreciation	(44,088)	(20,311)
	<u>47,554</u>	<u>71,331</u>
Plant & equipment– at cost	1,135,787	-
Less: Accumulated depreciation	(25,255)	-
	<u>1,110,532</u>	<u>-</u>
Total	<u><u>7,193,235</u></u>	<u><u>109,806</u></u>

Reconciliations

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

Consolidated	Buildings & Building Improvements	Computer Equipment	Furniture and Fittings	Plant & equipment	Total
Balance at 1 July 2017	-	242	-	-	242
Additions	-	48,696	91,642	-	140,338
Disposals	-	-	-	-	-
Depreciation expense	-	(10,463)	(20,311)	-	(30,774)
Balance at 30 June 2018	-	38,475	71,331	-	109,806
Additions	6,014,812	1,172	-	1,123,687	7,139,671
Transfer	-	(12,100)	-	12,100	-
Depreciation expense	-	(7,210)	(23,777)	(25,255)	(56,242)
Balance at 30 June 2019	6,014,812	20,337	47,554	1,110,532	7,193,235

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NOTE 7: 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.

The potential for disposal of existing inventory produced by DayaCann continues to be limited due to the ongoing government restrictions on the ability to export the product out of Chile. Until these restrictions are relaxed by the Chilean Government, the Company has chosen to conservatively impair the value of the inventory in DayaCann. As such an independent valuation of the inventory and mother plants was not performed for the year ended 30 June 2019.

Summarised statement of financial position of DayaCann:

	2019	2018
	\$	\$
Cash and cash equivalents	187,154	6,639
Trade and other receivables	-	226,455
Inventories	1,597,360	1,737,569
Impairment of inventories	(1,597,360)	-
Other current assets	-	-
Plant and equipment	122,332	128,580
Deferred tax assets	-	-
Trade and other payables	(1,722,157)	(702,296)
Provisions for employee benefits	(7,065)	(4,013)
Deferred tax liabilities	-	-
Net assets / equity	<u>(1,419,736)</u>	<u>1,392,934</u>
AusCann's 50% share of DayaCann's net assets	<u>(709,868)</u>	<u>696,467</u>
AusCann's carrying amount of the investment in DayaCann	<u>(709,868)</u>	<u>696,467</u>

Summarised statement of profit or loss of DayaCann:

Other income	-	505,830
Administration costs	(1,174,345)	(428,117)
Impairment of inventory	(1,597,360)	-
Tax expense	-	-
Profit/(Loss) for the period	<u>(2,771,705)</u>	<u>77,713</u>
AusCann's 50% share of DayaCann's loss for the period	<u>(1,385,852)</u>	<u>38,857</u>
AusCann's 50% share of DayaCann Loss recognised in Auscann group, including foreign currency translation	(696,467)	38,857

The loss recognised in AusCann Group Holdings Ltd was limited to the investment amount.

At 30 June 2019, as the investment balance in DayaCann has been reduced to nil, an amount of \$709,868 relating to the group's shares of loss and movement in reserves in DayaCann has not been recognised in the consolidated entity.

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NOTE 8: TRADE AND OTHER PAYABLES

Trade payables and accrued expenses	1,026,308	471,780
PAYG and superannuation payable	83,718	62,542
	1,110,026	534,322

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

NOTE 9: EMPLOYEE ENTITLEMENTS

Current

Provision for annual leave	89,402	65,817
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NOTE 10: ISSUED CAPITAL

	2019	2018	2019	2018
	\$	\$	Number of Shares	Number of Shares*
(a) Ordinary shares – fully paid, net of costs	75,452,467	39,328,101	316,997,357	276,872,772
(b) Convertible notes, net of costs	-	-		
	75,452,467	39,328,101		

(a) Ordinary shares – fully paid

Movements in ordinary share capital

Details	Date	Number	\$
Opening balance	30 June 2017	271,372,772	33,519,536
Exercise of 100,000 share options at \$0.9360	08 Jan 2018	100,000	93,600
Transfer of value from options reserve	08 Jan 2018	-	24,375
Exercise of 100,000 share options at \$0.9360	08 Feb 2018	100,000	93,600
Transfer of value from options reserve	08 Feb 2018	-	24,375
Exercise of 1,300,000 share options at \$0.9360	15 Mar 2018	1,300,000	1,216,800
Transfer of value from options reserve	15 Mar 2018	-	316,815
Exercise of 1,250,000 share options at \$0.6000	02 May 2018	1,250,000	750,000
Transfer of value from options reserve	02 May 2018	-	473,750
Exercise of 1,250,000 share options at \$0.6000	04 May 2018	1,250,000	750,000
Transfer of value from options reserve	04 May 2018	-	473,750
Exercise of 1,500,000 share options at \$0.7000	14 May 2018	1,500,000	1,050,000
Transfer of value from options reserve	14 May 2018	-	541,500
	30 June 2018	276,872,772	39,328,101
Placement of 30,375,000 shares at \$1.10 (net of costs)	13 July 2018	30,375,000	33,412,500
Costs associated with Placement	12 July 2018	-	(1,726,118)
Share purchase plan of 1,842,076 shares at \$1.05	9 August 2018	1,842,076	1,934,050
Exercise of 50,000 share options at \$0.2100	4 April 2019	50,000	10,500
Transfer of value from option reserve	4 April 2019	-	5,665
Exercise of 50,000 share options at \$0.2100	17 April 2019	50,000	10,500
Transfer of value from option reserve	17 April 2019	-	5,665
Exercise of 7,677,639 share options at \$0.2000	10 June 2019	7,677,639	1,535,528
Transfer of value from option reserve	10 June 2019	-	886,076
Issue of share to managing director	10 June 2019	129,870	50,000
Closing Balance	30 June 2019	316,997,357	75,452,467

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NOTE 10: ISSUED CAPITAL (continued)

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.

(b) Convertible notes

No convertible notes were issued during the financial year.

(c) Performance Shares

109,200 performance rights were issued to employees during the financial year. They were valued at \$41,026, of which \$7,943 vested during this year.

(d) Signing bonus

129,870 shares were issued as a signing bonus to Ido Kanyon on agreeing to accept the role as chief executive officer. The shares were valued at \$50,000.

NOTE 11: EVENTS SUBSEQUENT TO REPORTING DATE

On 1 July 2019, AusCann signed a new supply agreement for the purchase of cannabis resin from Tasmanian Alkaloids (TasAlk). TasAlk is one of the world's largest manufacturers of controlled substances, producing alkaloid raw material in Tasmania for medicinal purposes. Under the new contract, which supersedes the original alliance established in CY 2017, the Company has agreed to purchase a minimum of 30% of its resin supply requirements from TasAlk for an initial three-year period, with the ability to extend for an additional three-year term. The agreement is part of AusCann's strategy to de-risk and diversify its supply chain with various GMP resin suppliers.

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.