



22 February 2021

The Manager, Listings
ASX Market Announcements Office
ASX Limited
Level 4, North Tower
Rialto Building
525 Collins Street
Melbourne VIC 3000

Dear Sir

Cann Group Limited (ASX:CAN) – Market Release - Results for the Half-Year ended 31 December 2020

We attach the Appendix 4D – “Half-year Report” for Cann Group Limited, incorporating the consolidated financial report and the Directors’ Report, for release to the market in accordance with Listing Rule 4.2A.

Yours faithfully

Geraldine Farrell
Company Secretary
Cann Group Limited

1. Company details

Name of entity:	CANN GROUP LIMITED
ABN:	25603949739
Reporting period:	For the half-year ended 31 December 2020
Previous period:	For the half-year ended 31 December 2019

2. Results for announcement to the market

	Movement		\$'000
Revenues from ordinary activities	up	35.5% to	1,108
Loss from ordinary activities after tax	up	12.2% to	(9,398)
Loss for the half-year	up	12.2% to	(9,398)
		31 December 2020	31 December 2019
		\$	\$
Basic earnings per share		(0.0498)	(0.0600)
Diluted earnings per share		(0.0498)	(0.0600)

Dividends

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

Comments

The loss for the Group after providing for income tax amounted to \$9,398,000 (31 December 2019: \$8,376,000).

3. Net tangible assets

	Reporting period	Previous period
	\$	\$
Net tangible assets per ordinary security	0.38	0.49

4. Control gained over entities

Not applicable.

5. Loss of control over entities

Not applicable.

6. Dividends

Current period

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

Previous period

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

7. Dividend reinvestment plans

Not applicable.

8. Details of associates and joint venture entities

Not applicable.

9. Foreign entities

Details of origin of accounting standards used in compiling the report:

Not applicable.

10. Independent Auditor's review

The Half-year financial report contains an independent auditor's review report, this report is not subject to any modifications or emphasis of matter.

Authorised to release by the Board of Directors of Cann Group Limited.

CANN GROUP LIMITED

ABN 25603949739

Half-Year Financial Report - 31 December 2020

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This Half-Year Financial Report is of Cann Group Limited (the Group) and its subsidiaries, including Cannproducts Pty Ltd (incorporated and domiciled in Victoria, Australia), Cannoperations Pty Ltd (incorporated and domiciled in Victoria, Australia), Cann IP Pty Ltd (incorporated and domiciled in Victoria, Australia) and Botanitech Pty Ltd (incorporated and domiciled in Victoria, Australia) (together, the **Consolidated Group**). These financial statements are for the half-year ended 31 December 2020. Unless otherwise stated, all amounts are presented in \$AUD'000.

A description of the Group's operations and of its principal activities is included in the review of operations and activities in the Directors' Report on pages 4 to 7. The Directors' Report is not part of the financial statements.

DIRECTORS

Mr Allan McCallum AO (Chairman)
Mr Philip Jacobsen (Deputy Chairman)
Mr Geoff Pearce (Non-executive Director)
Mr Doug Rathbone AM (Non-executive Director)
Ms Jenni Pilcher (Non-executive Director)
(Appointed 8th September 2020)

CHIEF EXECUTIVE OFFICER

Mr Peter Crock

SECRETARY

Ms Geraldine Farrell

REGISTERED OFFICE

4 Research Avenue
Walter and Eliza Hall Institute of Medical Research
La Trobe University, Bundoora Vic 3083.

SHARE REGISTRY

Link Market Services Limited
Tower 4, 727 Collins Street
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AUDITORS

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CONTACT INFORMATION

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The Directors present their report, together with the financial statements, on the Group consisting of Cann and the entities it controlled at the end of, or during, the half-year ended 31 December 2020.

Information on Directors

The names and details of the Directors in the office during the half year period are as follows. Directors have been in the office for the entire half year unless otherwise stated.

Mr Allan McCallum AO (Chairman)
Mr Philip Jacobsen (Deputy Chairman)
Mr Geoff Pearce (Non-executive Director)
Mr Doug Rathbone AM (Non-executive Director)
Ms Jenni Pilcher (Non-executive Director)
(Appointed 8th September 2020)

Principal Activities

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

Operating Results

The loss for the Group after providing for income tax amounted to \$9.40 million (31 December 2019: \$8.38 million).

The Group's basic and diluted loss per share is \$0.049 (2019: \$0.060). The Weighted Average number of Shares used to calculate the basic and diluted earnings per share is 188,826,466 (2019: 139,609,936).

The net assets of the Group are \$103.09 million as at 31 December 2020 (30 June 2020: \$61.075 million).

Review of operations

Production and sales

Cultivation at Cann's Southern facility was generally unaffected by COVID-19 restrictions as the medicinal cannabis industry is classified as an essential service. Cann has been continually cultivating under permit since May 2017 and the raw material has been processed through Cann's contract manufacturer into various stages of resin, oils and finished product. The largest impact that COVID-19 has had on the business is through meaningful delays in various licensing and permitting processes that must be met in order to ship product offshore. The strategic alliance established with iuvo therapeutics in Germany has culminated in an initial order for 19,000 bottles of oil, but shipment of that product has been delayed awaiting final permits from regulators. These permits and the corresponding shipment is anticipated to occur in this current quarter and Cann believes it will represent the largest quantity of formulated medicinal cannabis shipped from Australia to date by an Australian company. Despite regulatory delays due to COVID-19 Cann was able to ship 1,400 bottles to the Lyphe Group UK and a further 1,400 bottles to Entoura Pty Ltd for distribution in Australia.

Sales of \$1.08 million were achieved during the half. The above-mentioned shipment to iuvo and other orders in negotiation will significantly boost sales revenue for the full year.

During the period, major shareholder, Aurora Cannabis, exited its shareholding in Cann. The sale was part of Aurora's stated objective to divest non-core assets. The technical services agreement between Aurora and Cann remains active and work on Mildura facility with Aurora Larssen Projects is not impacted.

Mildura Facility

During the period, the Group secured funding via debt and equity, to re-commence construction of its large-scale state-of-the-art glasshouse facility in Mildura, Victoria. The Mildura facility is being constructed on a staged basis with the first Stage 1A providing annual production capacity of 12,500kg. An additional two proposed stages are planned, dependent on demand growth. Work has recommenced at the Mildura site in February 2021 and Cann expects to complete commissioning of Stage 1A by end of calendar year 2021 (CY 2021), with first product expected to be processed and released around the end of March 2022. The anticipated cost to completion of this stage is \$59m. During the period, Cann received licences issued under the Narcotics Drug Act at the new Mildura facility. The licences relate to the cultivation. Production manufacturing, packaging, storage, transport, and disposal of medicinal cannabis in final dose and intermediate forms. Cann will apply for a permit to cultivate once a final inspection of the completed facility has been conducted by the Office of Drug Control (ODC).

Research and development

Cann signed an agreement to work in collaboration with Agriculture Victoria to develop novel genetics using accelerated breeding with Cann's existing genetics. Phenotypic trials have progressed with new genetics grown from seed. Genotypic analysis of the new lines has commenced and chemotypic analysis of the flowers is now underway. This data will be used to design a breeding plan that will lead to new lines with improved yields of cannabinoids and buds. Cann has also validated results from experiments performed by DPI NSW to improve root production in a key cannabis cultivar. The improvement will now be transferred to Cann's commercial operations.

Funding

A funding package for the Stage 1A development at Mildura was finalised during the half involving both debt and equity. In August Cann raised \$40.2m by way of an institutional placement of \$14.3m and Share Purchase Plan of \$25.9m. Cann received very strong support from investors and all shares were issued at a price of \$0.40 each. This capital will be used to fund the Group's share of the capital expense for completion of Stage 1A at Mildura and for working capital. In November the Group secured a debt facility of \$50m from the National Australia Bank for the construction of the Mildura project. The debt facility is a standard form construction draw-down facility, which converts to an amortisation loan over 8 years. The base interest rate will be the Bank Bill Swap Bid Rate (BBSY), the drawn margin rate will be 3.20% p.a. and the facility fee will be 1.80% p.a.

Board and Management changes

During the period Ms Jenni Pilcher joined the board as a non-executive Director. Ms Pilcher has extensive senior executive experience in the medical and biotechnology sectors and is currently the Chief Financial Officer and Group Secretary of Mach7 Technologies (ASX:M7T). She has previously held executive roles with Alchemia Limited (ASX:ACL) and Mesoblast Limited (ASX:MSB).

Significant changes in the state of affairs

Shares issued on the exercise of options

306,846 options have been exercised at 46 cents per share on 28 January 2021 before signing of the half year financials.

Shares issued on the exercise of performance rights

There were no ordinary shares of Cann issued on the exercise of performance rights during the period ended 31 December 2020 and up to the date of this report.

Dividends

No dividend has been proposed or paid during the half year period ended 31 December 2020.

Matters subsequent to end of half year financials

Cann Group has made a strategic \$1.1 million cornerstone commitment in a \$5.5 million capital conducted by iuvo, resulting in the Group holding approximately 2% of iuvo's issued ordinary shares. Funds raised will be used by iuvo to expand sales and marketing capabilities and assist with construction of a new manufacturing and formulation facility in Malta. Following the investment, the Group has been granted exclusive external rights to supply iuvo therapeutics GmbH, iuvo's wholly owned subsidiary, ('iuvo Germany'), with medicinal cannabis extracts until 31 December 2021, with those rights then converting to preferred non-exclusive status. iuvo has placed an initial 19,000-unit order for Cann product which is expected to be shipped to Germany in late March/early April, subject to relevant regulatory clearances. Being fully compliant with the latest German monograph addition "Cannabis Extractum Normatum", it will be one of the first full-spectrum extracts available in the German market.

The Group has experienced a cyber security incident, involving an unknown third party. The breach was discovered in February 2021 and is currently under investigation. The Group has recently made payments of approximately \$3.6 million to an overseas contractor (in relation to works being undertaken for Cann's Mildura facility), however those payments have been received by an unknown third party as a result of a complex and sophisticated cyber fraud perpetrated against the Group and its overseas contractor. The Group is working with its bank to determine if any of the payments can be halted and if any of the funds involved are recoverable, has notified its insurance brokers to determine if a claim can be made to recover any of the losses involved and has engaged forensic IT expertise and are working with investigative authorities.

There are 24,506,015 options outstanding as at 31 December 2020 out of which 306,846 options have been exercised at 46 cents per share on 28 January 2021 before signing of the half year financials. A trading halt was requested on 16 February 2021 when the Group made an application to the Victorian Registry of the Federal Court of Australia to rectify an administrative error in the non-issue of a cleansing notice relating to the issue of 306,846 ordinary shares in the company on 28 January 2021. Orders were made to extend the time period within which to issue the cleansing notice (with the notice subsequently issued) and the trading halt was lifted on 17 February 2021.

89,668 fully paid ordinary shares in Cann were issued to employees of Cann on 12 January 2021 as a result of the implementation of an Employee Share Gift Plan (**Gift Shares**) that was approved by shareholders at Cann's AGM on 24 November 2020. The Gift Shares were issued for nil consideration as an incentive reward for employees up to the maximum value of \$1000. The number of shares issued to each eligible employee was calculated by reference to the 5day VWAP for the share price, ending on 11 January 2021 (being \$0.6466 per share).

On 11 January 2021 900,000 Performance Rights were issued to various senior employees as part of the Employee Long Term Incentive Plan. Plan Shares will only be issued in relation to these performance rights on the satisfaction of a performance condition, namely the harvesting of the first commercial crop from the Mildura facility.

The Group has executed an all-scrip share sale agreement to acquire the Satipharm business ('Satipharm') from Canada-based Harvest One Cannabis Inc. ('Harvest One') for a total maximum consideration of CAD\$4.0 million. The acquisition has not been completed as at the date of this report. The acquisition provides Cann Group with rights to proprietary and differentiated cannabinoid delivery technology and immediate entry into the Cannabidiol (CBD) market in Europe, where Satipharm has existing distribution agreements in place in the UK, Ireland and Eastern Europe. The transaction is by way of acquisition of the relevant wholly-owned subsidiaries of Harvest One that collectively own and carry on the Satipharm business. The acquisition comprises the Satipharm business including its intellectual property; marketing and distribution rights; exclusive manufacturing rights in respect of products containing THC and/or a combination of THC and CBD and contract manufacturing arrangements for exclusive supply of CBD products manufactured by Gelpell AG to Satipharm. Cann Group is separately purchasing specialised manufacturing equipment from Gelpell AG to enable Cann's manufacture of the Gelpell® products.

Rounding of amounts

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

Auditor's independence declaration

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

This report is made in accordance with a resolution of Directors, pursuant to section 306(3)(a) of the Corporations Act 2001.

On behalf of the Directors



Mr Allan McCallum, AO
Chairman

19 February 2021

**AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE
CORPORATIONS ACT 2001 TO THE DIRECTORS OF CANN GROUP LIMITED**

I declare that, to the best of my knowledge and belief during the half-year ended 31 December 2020 there have been:

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

William Buck

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

A. A. Finnis

A. A. Finnis
Director

Melbourne, 19 February 2021

ACCOUNTANTS & ADVISORS

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CANN GROUP LIMITED
Consolidated statement of profit or loss and other comprehensive income
For the half-year ended 31 December 2020



	Note	31 December 2020 \$'000	31 December 2019 \$'000
Revenue		1,081	569
Other income	3	4,123	1
Interest revenue calculated using the effective interest method		27	249
Total revenue		<u>5,231</u>	<u>819</u>
Expenses			
Administration and corporate costs		(8,518)	(7,452)
Research and development costs		(1,074)	(591)
Depreciation and amortisation expense		(1,305)	(1,106)
Total expenses		<u>(10,897)</u>	<u>(9,149)</u>
Loss before finance costs and income tax expense		(5,666)	(8,330)
Finance costs		(3,732)	(46)
Loss before income tax expense		(9,398)	(8,376)
Income tax expense		-	-
Loss after income tax expense for the half-year		(9,398)	(8,376)
Other comprehensive income for the half-year, net of tax		-	-
Total comprehensive loss for the half-year		<u>(9,398)</u>	<u>(8,376)</u>
		Cents	Cents
Basic earnings/(loss) per share	10	(4.98)	(6.00)
Diluted earnings/(loss) per share	10	(4.98)	(6.00)

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

	Note	31 December 2020 \$'000	30 June 2020 \$'000
Assets			
Current assets			
Cash and cash equivalents		27,651	1,554
Trade and other receivables		4,257	92
Prepayments		348	842
Inventories		10,548	9,434
Biological assets		427	610
Total current assets		43,231	12,532
Non-current assets			
Property, plant and equipment		59,630	60,890
Intangibles	4	1,058	828
Investments	5	2,003	1,010
Right-of-use assets		907	1,058
Other		85	85
Total non-current assets		63,683	63,871
Total assets		106,914	76,403
Liabilities			
Current liabilities			
Trade and other payables		2,891	6,005
Lease liability		470	486
Total current liabilities		3,361	6,491
Non-current liabilities			
Lease liability		465	642
Convertible notes	6	-	8,195
Total non-current liabilities		465	8,837
Total liabilities		3,826	15,328
Net assets		103,088	61,075
Equity			
Issued capital	7	144,880	97,137
Reserves	8	5,811	2,143
Accumulated losses		(47,603)	(38,205)
Total equity		103,088	61,075

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

CANN GROUP LIMITED
Consolidated statement of changes in equity
For the half-year ended 31 December 2020



	Issued capital \$'000	Reserves \$'000	Accumulated losses \$'000	Total equity \$'000
Balance at 1 July 2019	96,502	1,975	(21,179)	77,298
Impact of AASB 16 arising under property rental leases	-	-	(89)	(89)
Balance at 1 July 2019 - restated	96,502	1,975	(21,268)	77,209
Loss after income tax expense for the half-year	-	-	(8,376)	(8,376)
Other comprehensive income for the half-year, net of tax	-	-	-	-
Total comprehensive loss for the half-year	-	-	(8,376)	(8,376)
<i>Transactions with owners in their capacity as owners:</i>				
Contributions of equity, net of transaction costs	394	-	-	394
Balance at 31 December 2019	96,896	1,975	(29,644)	69,227
	Issued capital \$'000	Reserves \$'000	Accumulated losses \$'000	Total equity \$'000
Balance at 1 July 2020	97,137	2,143	(38,205)	61,075
Loss after income tax expense for the half-year	-	-	(9,398)	(9,398)
Other comprehensive income for the half-year, net of tax	-	-	-	-
Total comprehensive loss for the half-year	-	-	(9,398)	(9,398)
<i>Transactions with owners in their capacity as owners:</i>				
Contributions of equity, net of transaction costs (refer note 7)	47,743	-	-	47,743
Share-based payments (refer note 8)	-	3,668	-	3,668
Balance at 31 December 2020	144,880	5,811	(47,603)	103,088

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

CANN GROUP LIMITED
Consolidated statement of cash flows
For the half-year ended 31 December 2020



	Note	31 December 2020 \$'000	31 December 2019 \$'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		181	1,665
Payments to suppliers and employees (inclusive of GST)		(12,388)	(8,504)
Interest received		27	249
Other income		857	-
		<u> </u>	<u> </u>
Net cash used in operating activities		(11,323)	(6,590)
Cash flows from investing activities			
Payments for property, plant and equipment		(756)	(31,541)
		<u> </u>	<u> </u>
Net cash used in investing activities		(756)	(31,541)
Cash flows from financing activities			
Proceeds from issue of shares	3	40,198	-
Share issue transaction costs		(1,830)	-
Repayment of lease liabilities		(192)	(250)
		<u> </u>	<u> </u>
Net cash from/(used in) financing activities		38,176	(250)
Net increase/(decrease) in cash and cash equivalents		26,097	(38,381)
Cash and cash equivalents at the beginning of the financial half-year		1,554	46,388
		<u> </u>	<u> </u>
Cash and cash equivalents at the end of the financial half-year		<u>27,651</u>	<u>8,007</u>

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

Note 1. Significant accounting policies

These general-purpose financial statements for the interim half-year reporting period ended 31 December 2020 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

This financial report does not include all the information required for full annual financial statements. Accordingly, this report is to be read in conjunction with the annual financial report for the year ended 30 June 2020 and any public announcements made by Cann Group Limited and its controlled entities during the half-year in accordance with continuous disclosure requirements arising under ASX Listing Rule 3.1 and the Corporations Act 2001.

Historical cost convention

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

The principal accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, unless otherwise stated.

Rounding of amounts

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

New or amended Accounting Standards and Interpretations adopted

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those followed in the preparation of The Group's annual consolidated financial statements for the year ended 30 June 2020. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective. Several amendments and interpretations apply for the first time in 2020, but do not have an impact on the interim condensed consolidated financial statements of the Group.

Research and development tax refund

The group has a dedicated research facility which is used for all the research and development activities in conjunctions with all the other research and development activities carried out with other research partners. Expenses on all the research and development activities are claimed back by the group by filing an annual return with the government under the income tax act 1997. The research and development tax refund is recognised as income in the books when it is received or the right to receive the incentive is certain.

Note 2. Critical accounting judgements, estimates and assumptions

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

Share-based payment transactions

The Group 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 either the Binomial or Black-Scholes 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 amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity.

Provision for impairment of inventories

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

Note 2. Critical accounting judgements, estimates and assumptions (continued)

Fair value measurement hierarchy

The Group is required to classify all assets and liabilities, measured at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being: Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date; Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and Level 3: Unobservable inputs for the asset or liability. Considerable judgement is required to determine what is significant to fair value and therefore which category the asset or liability is placed in can be subjective.

The fair value of assets and liabilities classified as level 3 is determined by the use of valuation models. These include discounted cash flow analysis or the use of observable inputs that require significant adjustments based on unobservable inputs.

Estimation of useful lives of assets

The Group determines the estimated useful lives and related depreciation and amortisation charges for its property, plant and equipment and finite life intangible assets. The useful lives could change significantly as a result of technical innovations or some other event. The depreciation and amortisation charge will increase where the useful lives are less than previously estimated lives, or technically obsolete or non-strategic assets that have been abandoned or sold will be written off or written down.

Impairment of non-financial assets other than goodwill and other indefinite life intangible assets

The Group assesses impairment of non-financial assets other than goodwill and other indefinite life intangible assets at each reporting date by evaluating conditions specific to the Group 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 fair value less costs of disposal or value-in-use calculations, which incorporate a number of key estimates and assumptions.

Covid Impact

As with many other businesses, the Group implemented changes in order to comply with Government-imposed COVID-19 restrictions and guidelines in 1H FY21, safeguarding the Group's commitment to the health and welfare of its employees and business partners. The Group had faced difficulties due to Covid in its plans to import the materials from overseas for Mildura construction and also significant delays in getting the regulatory clearances for shipment of finished products to export markets in Europe. The Group is working with government to implement all the safeguards in place for all its facilities so that operations can run as smoothly as possible.

Non-recognition of carry forward tax losses

The balance of future income tax benefit estimated as \$596,433 (30 June 2020 \$4,807,802) arising from current half year tax losses of \$9,398,000 (30 June 2020: \$16,937,387) and timing differences has not been recognised as an asset because it is not clear when the losses will be recovered. The cumulative future income tax benefit estimated to be \$10,092,090 which has not been recognised as an asset, will only be obtained if:

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

Operating Segments

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components.

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

Note 3. Other Income

	31 December 2020 \$'000	31 December 2019 \$'000
R&D tax refund	3,266	-
Government grant Mildura construction	450	-
Custom duty refund	325	-
Others	82	-
	<u>4,123</u>	<u>-</u>

R&D tax incentive is recoverable for all the eligible research and development activity expenses incurred during the period 1 July 2019 to 30 June 2020 and filed with the government under the income tax act. The incentive has been received by the Group at the time of signing this report.

Note 4. Intangibles

	31 December 2020 \$'000	30 June 2020 \$'000
Intangible assets - at cost opening	919	153
Additions during the period*	449	766
Less: Accumulated amortisation	(310)	(91)
	<u>1,058</u>	<u>828</u>

*additions during the current period is related to the capitalisation of software.

Note 5. Financial assets at fair value through profit or loss

	31 December 2020 \$'000	30 June 2020 \$'000
Subscription shares Zalm Therapeutics Ltd (formerly Pure Cann NZ limited) - opening balance	935	951
Additional subscription shares	923	-
Fair value movement during the period	-	(16)
Closing balance	1,858	935
Shares in Emerald Clinics Limited – opening balance	75	250
Additional subscription shares	-	-
Fair value movement during the period	70	(175)
Closing balance	145	75
	<u>2,003</u>	<u>1,010</u>

The financial assets listed above are valued at the fair value at the end of the reporting period. The gains/(losses) on the financial assets have been recognised in a profit and loss account.

The Group, through its wholly owned subsidiary Botanitech, initially held 3.9% of the issued capital of Zalm Therapeutics, for which it paid NZ\$1 million (out of a previously committed total amount of NZ\$6 million on a staggered basis, as announced to the market on 26 April 2019). In August 2020, The Group increased its holding to circa 8.4% in exchange for an issue to Zalm Therapeutics of new shares in the Group having a value of NZ\$1 million. The Group is no longer obligated to invest the unpaid balance of NZ\$4 million into Zalm Therapeutics given these new arrangements.

The Groups financial assets that are measured or disclosed at fair value, using a three-level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being:

Note 5. Financial assets at fair value through profit or loss (continued)

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date
Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
Level 3: Unobservable inputs for the asset or liability.

The investment in Emerald Clinics limited is classified as level 1 hierarchy investment in accordance with the AASB 13 Fair Value Measurement as these are quoted securities in active market and the Group can access the active market price for these securities on the reporting date. Accordingly, the value of the investment in these securities have been marked to the active market price on the reporting date.

The investment in the Zalm Therapeutics Ltd is considered by the directors of the group as level 3 hierarchy investment in accordance with the AASB 13 Fair Value Measurement, as investment is shares in unlisted specialist proprietary limited company, for which there is no active market nor readily observable valuation inputs. Accordingly, the directors have determined that it is reasonable to assess these assets fair value based on the most recent, or expected future, arm's length transactions in these shares. Based on these criteria, the directors have determined that the assets carrying values are not materially different to the fair values at the reporting date.

Note 6. Convertible Notes

The Group has converted 7,900,000 outstanding convertible notes along with accrued interest into 24,361,008 ordinary shares during the half year period ended 31 December 2020.

As per the agreement between the Group and Noteholders, along with the conversion of convertible notes into equity, Noteholders were also issued one option for each equity share issued. Accordingly, 24,506,015 options were granted at the time of the conversion of 8,000,000 notes, which had not yet been exercised as at 31 December 2020.

306,846 options have been exercised at 46 cents per share on 28 January 2021 before signing of the half year financials.

The fair value of the options has been calculated below with the Black and Scholes model

Grant of options	Number of options	Spot price at grant of option	Options exercise price	Risk free rate	Options expiry date	Volatility	Fair Value
Series 1	145,007	0.70	0.95	0.26%	31/03/2022	85.00%	36,794
Series 2	17,185,723	0.40	0.46	0.26%	31/03/2022	85.00%	2,610,670
Series 3	7,175,285	0.42	0.46	0.26%	31/03/2022	85.00%	1,020,182
Total	24,506,015						3,667,647

The fair value of the options issued has been recognised as a finance cost in the Statement of Profit or Loss and Other Comprehensive Income.

Note 7. Issued Capital

	31 Dec 2020 No of Shares	31 Dec 2020 \$'000	30 June 2020 No of Shares	30 June 2020 \$ '000
As at 1 July	142,892,342	97,137	141,804,247	96,502
Shares issued during the half year*	127,093,036	49,573	1,088,695	635
Cost of issuing shares	-	(1,830)	-	-
Total issued capital	269,985,378	144,880	142,892,342	97,137

Note 7. Issued Capital (continued)

- *The Group allotted 97,698,372 Fully Paid Ordinary Shares to the new shareholders during the half year period ended 31 December 2020 at a price of \$0.40 per share.
- * The Group allotted 2,796,080 Fully Paid Ordinary Shares to the directors during the half year period ended 31 December 2020 at a price of \$0.40 per share.
- * The Group allotted 24,361,008 Fully Paid Ordinary Shares following the conversion of 7,900,000 convertible notes during the half year period ended 31 December 2020 at a price of \$0.40 per share.
- * The Group allotted 253,686 Fully Paid Ordinary Shares to CSIRO as payment for research consulting services provided pursuant to the Research Services Umbrella Agreement between the Group and CSIRO during the half year period ended 31 December 2020 at a weighted average price of \$0.72 per share
- * The Group allotted 1,983,890 Fully Paid Ordinary Shares to Zalm Therapeutics NZ as per the agreement between the Group and Zalm Therapeutics during the half year period ended 31 December 2020 at a price of \$0.47 per share.

Note 8. Reserves

	31 Dec 2020 \$'000	30 June 2020 \$ '000
Share based payments reserve opening	2,143	1,975
Vesting of performance rights*	-	168
Options issued to convertible note holders	3,668	-
Closing balance	5,811	2,143

*On 21 November 2017 1,000,000 Performance Rights Class C were issued to the chief executive officer with a total vesting value of \$2,465,000 to 21 November 2019 will not be vested until the last condition of vesting of completion of Mildura greenhouse facility.

As per the agreement between the Group and Noteholders, along with the conversion of convertible notes into equity, Noteholders were issued one option for each equity share. Accordingly, 24,506,015 options were granted at the time of the conversion of 8,000,000 notes and all options are outstanding as at 31 December 2020. 306,846 options have been exercised at 46 cents per share on 28 January 2021 before signing of the half year financials.

Note 9. Events after the reporting period

Matters subsequent to end of half year financials

Cann Group has made a strategic \$1.1 million cornerstone commitment in a \$5.5 million capital conducted by iuvo, resulting in the Group holding approximately 2% of iuvo's issued ordinary shares. Funds raised will be used by iuvo to expand sales and marketing capabilities and assist with construction of a new manufacturing and formulation facility in Malta. Following the investment, the Group has been granted exclusive external rights to supply iuvo therapeutics GmbH, iuvo's wholly owned subsidiary, ('iuvo Germany'), with medicinal cannabis extracts until 31 December 2021, with those rights then converting to preferred non-exclusive status. iuvo has placed an initial 19,000-unit order for Cann product which is expected to be shipped to Germany in late March/early April, subject to relevant regulatory clearances. Being fully compliant with the latest German monograph addition "Cannabis Extractum Normatum", it will be one of the first full-spectrum extracts available in the German market.

The Group has experienced a cyber security incident, involving an unknown third party. The breach was discovered in February 2021 and is currently under investigation. The Group has recently made payments of approximately \$3.6 million to an overseas contractor (in relation to works being undertaken for Cann's Mildura facility), however those payments have been received by an unknown third party as a result of a complex and sophisticated cyber fraud perpetrated against the Group and its overseas contractor. The Group is working with its bank to determine if any of the payments can be halted and if any of the funds involved are recoverable, has notified its insurance brokers to determine if a claim can be made to recover any of the losses involved and has engaged forensic IT expertise and are working with investigative authorities

Note 9. Events after the reporting period (continued)

There are 24,506,015 options outstanding as at 31 December 2020 out of which 306,846 options have been exercised at 46 cents per share on 28 January 2021 before signing of the half year financials. A trading halt was requested on 16 February 2021 when the Group made an application to the Victorian Registry of the Federal Court of Australia to rectify an administrative error in the non-issue of a cleansing notice relating to the issue of 306,846 ordinary shares in the company on 28 January 2021. Orders were made to extend the time period within which to issue the cleansing notice (with the notice subsequently issued) and the trading halt was lifted on 17 February 2021.

89,668 fully paid ordinary shares in Cann were issued to employees of Cann on 12 January 2021 as a result of the implementation of an Employee Share Gift Plan (**Gift Shares**) that was approved by shareholders at Cann's AGM on 24 November 2020. The Gift Shares were issued for nil consideration as an incentive reward for employees up to the maximum value of \$1000. The number of shares issued to each eligible employee was calculated by reference to the 5day VWAP for the share price, ending on 11 January 2021 (being \$0.6466 per share).

On 11 January 2021 900,000 Performance Rights were issued to various senior employees as part of the Employee Long Term Incentive Plan. Plan Shares will only be issued in relation to these performance rights on the satisfaction of a performance condition, namely the harvesting of the first commercial crop from the Mildura facility.

The Group has executed an all-scrip share sale agreement to acquire the Satipharm business ('Satipharm') from Canada-based Harvest One Cannabis Inc. ('Harvest One') for a total maximum consideration of CAD\$4.0 million. The acquisition has not been completed as at the date of this report. The acquisition provides Cann Group with rights to proprietary and differentiated cannabinoid delivery technology and immediate entry into the Cannabidiol (CBD) market in Europe, where Satipharm has existing distribution agreements in place in the UK, Ireland and Eastern Europe. The transaction is by way of acquisition of the relevant wholly-owned subsidiaries of Harvest One that collectively own and carry on the Satipharm business. The acquisition comprises the Satipharm business including its intellectual property; marketing and distribution rights; exclusive manufacturing rights in respect of products containing THC and/or a combination of THC and CBD and contract manufacturing arrangements for exclusive supply of CBD products manufactured by Gelpell AG to Satipharm. Cann Group is separately purchasing specialised manufacturing equipment from Gelpell AG to enable Cann's manufacture of the Gelpell® products.

Note 10. Earnings per share

	31 December 2020 \$'000	31 December 2019 \$'000
Loss after income tax	<u>(9,398)</u>	<u>(8,376)</u>
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	188,826,466	139,609,936
	Cents	Cents
Basic earnings/(loss) per share	(4.98)	(6.00)
Diluted earnings/(loss) per share	(4.98)	(6.00)

For calculation of weighted average number of shares the outstanding options of 24,506,015 as at 31 December 2020 and performance rights have not been considered.

Note 11. Contingent liabilities and capital commitments

The Group has a bank guarantee of \$50,000 for the operating premises lease of Cann's Northern Facility.

The Group has signed an agreement with the vendor Logics BV for the Mildura construction for the total contract value of Euro 2.74 million out of which the balance capital commitment remaining is Euro 1.3 million.

In the Directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, Australian Accounting Standard AASB 134 'Interim Financial Reporting', the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes give a true and fair view of the group's financial position as at 31 December 2020 and of its performance for the financial half-year ended on that date; and
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of Directors made pursuant to section 303(5)(a) of the Corporations Act 2001.

On behalf of the Directors



Mr Allan McCallum, AO
Chairman

19 February 2021

Cann Group Limited

Independent auditor's review report

Report on the Review of the Half-Year Financial Report

Conclusion

We have reviewed the accompanying half-year financial report of Cann Group Limited (the Company) and the entities it controlled at the half-year's end or from time to time during the half year (the consolidated group), which comprises the consolidated statement of financial position as at 31 December 2020, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, a summary of significant accounting policies and other explanatory information, and the directors' declaration.

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

- a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2020 and of its performance for the half year ended on that date; and
- b) complying with Australian Accounting Standard 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Basis for Conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Financial Report* section of our report. We are independent of the Company in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Responsibility of Management for the Financial Report

The directors of Cann Group Limited are responsible for the preparation of the half-year 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 half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

ACCOUNTANTS & ADVISORS

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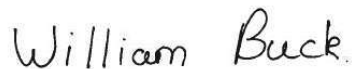
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Auditor's Responsibilities for the Review of the Financial Report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Company's financial position as at 31 December 2020 and its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

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

**William Buck Audit (Vic) Pty Ltd**

ABN 59 116 151 136

**A. A. Finniss**

Director

Melbourne, 19 February 2021