

AusCann Appendix 4D and Half-Year FY2022 Report

Key Highlights

- Successfully completed a 90-day Target Animal Safety Study for DermaCann® in the U.S, confirming the product to be safe and well tolerated in dogs
- Submitted final regulatory data modules for DermaCann® product registration in Australia
- Appointed Intuit Regulatory Ltd to commence New Zealand product registration for DermaCann®
- Advanced DermaCann® commercialisation activities in South Africa and the U.S
- Engaged Knoell Animal Health LLC to advance the CPAT-01 U.S Phase 2 clinical program
- Held a successful Pre-Submission Meeting with the U.S Food and Drug Administration for CPAT-01
- Appointed Ingenu research to complete a strategic review of AusCann's research assets to expand the Company's human pipeline
- Appointed Tod McGrouther as new Chairperson
- Net cash used in operations reduced significantly by 45% to \$2,256,936 for the period

28 February 2022 - AusCann Group Holdings Limited (ASX:AC8) ('AusCann' or 'the Company') is pleased to update the market on its progress in the 6 months ended December 31, 2021.

Operating Results and Financial Position

The loss of the consolidated entity for the half year reduced to \$3,466,869 (2020: \$4,551,228), which included amortisation/depreciation costs of \$933,042.

Excluding non-cash costs, the total expenses reduced by 37% to \$2,827,269 for the period (2020: \$4,506,387). This decrease was due to operational efficiencies and reductions in administration, corporate, and employee expenses following AusCann's acquisition of CannPal Animal Therapeutics Limited.

Rental income of \$213,750 (2020: Nil) was received during the half year in respect to the lease of the Company's research and development facility in Wangara, Western Australia to Source Certain International.

Costs associated with research and development were \$1,651,994 for the period, accounting for 58% of the Company's total expenses for the half-year. These expenses directly relate to core revenue generating activities for the Company's lead medicinal cannabis programs.

A full review of operations and financial position for the half-year is set out on page 5 of the half year FY2022 report.

ENDS

This ASX announcement was authorised for release by the Board of AusCann.

For more information, please contact:

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Chief Executive Officer
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ABOUT AUSCANN

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T: +61 6305 0705 E: info@auscann.com.au www.auscann.com.au

AusCann Group Holdings Limited (ASX:AC8) is an Australian-based company focused on the development and commercialisation of cannabinoid-derived therapeutic products to address unmet needs for humans and animals within Australia and internationally. Our key difference is the commitment to rigorous product development, focused on providing reliable, stable and standardised cannabinoid-derived therapeutics products, whilst generating robust safety, quality assurance and efficacy data to support market access in various regulatory environments around the world.

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AusCann Group Holdings Ltd
ABN 72 008 095 207

Appendix 4D and Half-Year Financial Report

31 December 2021

APPENDIX 4D AND HALF-YEAR FINANCIAL REPORT

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

Details of the Reporting Period and the Previous Corresponding Period

- Reporting period – half-year ended 31 December 2021
- Previous corresponding period – half-year ended 31 December 2020

Results for Announcement to the Market

	%	\$
Revenues from ordinary activities	<i>Up</i> 256%	<i>to</i> 293,442
Loss from ordinary activities after tax attributable to members	<i>Down</i> 10%	<i>to</i> 4,153,390
Net loss from the period attributable to members	<i>Down</i> 10%	<i>To</i> 4,153,390
Final and interim dividends	N/A	
Record date for determining entitlements to dividends	N/A	

	Reporting period	Previous corresponding period
Net tangible asset backing per ordinary share	5.47 cents	9.53 cents

Details of entities over which control has been gained or lost

There have been no changes in control over entities in the half-year ended 31 December 2021.

Details of dividends or distribution payments

No dividends or distributions are payable.

Details of dividend or distribution reinvestment plans

There is no dividend or distribution reinvestment program in operation.

Details of associates and joint venture entities

N/A

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

N/A

Details of any audit dispute or qualification

None

Financial report

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

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AUSCANN GROUP HOLDINGS LTD

ABN 72 008 095 207

**Half-Year Report
for the Period Ended
31 December 2021**

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AUSCANN GROUP HOLDINGS LTD

ABN 72 008 095 207

COMPANY INFORMATION

DIRECTORS

Mr Tod McGrouther (appointed 14 December 2021)
Ms Krista Bates
Mr Robert Clifford
Mr Chris Mews
Mr Max Johnston (resigned 15 November 2021)
Mr Bruce McHarrie (resigned 15 November 2021)
Dr Kathryn Adams (resigned 14 December 2021)
Mr Geoffrey Starr (resigned 14 December 2021)

COMPANY SECRETARY

Ms Susan Park

REGISTERED OFFICE

Level 5
35 Havelock Street
West Perth WA 6005

WEBSITE

<https://auscann.com.au>

CORPORATE GOVERNANCE

The Company's corporate governance policies can be accessed at <https://auscann.com.au/investors/corporate-governance/>.

This interim financial report does not include all the notes normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the Annual Report for the year ended 30 June 2021 and any public announcements made by the Company during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

AUDITORS

PKF Perth
Level 4
35 Havelock Street
West Perth WA 6005

SHARE REGISTRY

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

SECURITIES EXCHANGE

Australian Securities Exchange Ltd

ASX CODE

AC8

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AUSCANN GROUP HOLDINGS LTD

ABN 72 008 095 207

DIRECTORS' REPORT FOR THE HALF-YEAR ENDED 31 DECEMBER 2021

The Directors present their report together with the financial statements of AusCann Group Holdings Ltd ("the Company" or "AusCann") and its controlled entity (collectively "the consolidated entity") for the half-year ended 31 December 2021.

Directors

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

Mr Tod McGrouther	Appointed 14 December 2021
Ms Krista Bates	
Mr Robert Clifford	
Mr Chris Mews	
Mr Max Johnston	Resigned 15 November 2021
Mr Bruce McHarrie	Resigned 15 November 2021
Dr Kathryn Adams	Resigned 14 December 2021
Mr Geoffrey Starr	Resigned 14 December 2021

Principal Activities

AusCann's principal activity during the financial period was to develop a differentiated portfolio of innovative and standardised cannabinoid-based medicines that expands the therapeutic applications of cannabis, offering both people and pets greater benefit for the treatment of inadequately met medical needs.

AusCann does this by providing healthcare professionals and veterinarians with reliable pharmaceutical and nutraceutical products, with robust safety, quality assurance and efficacy data to support the treatment of their patients in global jurisdictions with relevant legislation that offer a compelling return on investment.

Operating Results and Financial Position

The loss of the consolidated entity for the half year was \$3,466,869 (2020: \$4,551,228), which included non-cash amortisation/depreciation costs of \$933,042.

Excluding non-cash costs, the total expenses reduced by 37% to \$2,827,269 for the period (2020: \$4,506,387). This decrease was due to operational efficiencies and continued reductions in administration, corporate, and employee expenses following AusCann's acquisition of CannPal Animal Therapeutics Limited.

Rental income of \$213,750 (2020: \$Nil) was recognised during the half year in respect to the lease of the Company's research and development facility in Wangara, Western Australia to Source Certain International.

Research and development expenses of \$1,651,994 (2020: \$2,287,701) accounted for 58% of the Company's total non cash expenses for the half-year. These expenses directly relate to core revenue generating activities for the Company's lead medicinal cannabis programs.

Loss from discontinued operations of \$686,521 relate to a non-cash provision for doubtful debts as a result of a dispute with GrowForChile SpA ("GFC") and Telor International Limited ("Telor"), who acquired the Company's right, title and interest in its 50% owned Chilean joint venture, DayaCann SpA (DayaCann) in 2021.

The disputed amounts are in relation to the USD \$1,000,000 to be transferred to the Company, of which USD \$500,000 was due on 28 February 2022 and the other USD \$500,000 is due by 28 February 2023. Based on the sale and purchase agreement, the Company does not have any outstanding obligations and consider GFC and Telor's claims to be unjustified. However, due to the matter being in dispute, this provision has been deemed prudent.

**DIRECTORS' REPORT
FOR THE HALF-YEAR ENDED 31 DECEMBER 2021**

AusCann remains well funded with net cash of \$11,399,287 (2020: \$13,679,923). Cash used in operating activities of \$2,256,936 for the half year represents a reduction of 45% versus 2020 (2020: \$4,123,608).

REVIEW OF OPERATIONS

The AusCann Group Holdings consolidated entity (AusCann) is pleased to report on the key highlights for the period ending December 31, 2021.

Successfully completed a 90-day Target Animal Safety Study for DermaCann® in the U.S

During the period, the Company was pleased to announce that it had completed a 90-day Target Animal Safety study (TAS) for DermaCann®, confirming the product to be safe and well tolerated for use in dogs at up to 5 times the current planned dose. The TAS study is a requirement for the DermaCann® regulatory submissions in Australia and New Zealand.

The safety study was completed at a veterinary research site in the United States and 15 healthy beagles were randomised into three groups for the trial (5 dogs per group);

1. Group 1 - control dogs - received no treatment
2. Group 2 - 3 X dogs - received 3X the recommended daily dose (3 mg/kg) of DermaCann®; and
3. Group 3 - 5 X dogs - received 5X the recommended daily dose (5 mg/kg) of DermaCann®

Dogs treated with DermaCann® for 92 days at 3X and 5X the planned upper dose rate were clinically well tolerated with no clinically relevant nor statistical differences between treated and control dogs identified for all physical examinations, clinical observations, haematology and food/water consumption parameters.

Haematological parameters for all dogs remained within normal ranges with no difference compared to untreated dogs. Serum chemistry was also largely unimpacted by treatment. A mild increase in alkaline phosphatase (ALP) was observed with the 3X and 5X DermaCann® treatments compared to placebo which is a well-documented response to CBD in humans and animals.

All other clinical chemistry results were normal, supporting DermaCann® to be safe and effective product for use in dogs at up to 5X the planned dose.

Submitted final regulatory data modules for DermaCann® product registration in Australia

AusCann submitted its final regulatory data modules to the Australian Pesticides and Veterinary Medicines Authority ('APVMA') during the period, to complete the submission of its dossier for the registration of DermaCann® as a world-first, regulatory approved veterinary medicine for anti-inflammatory and immune support in dogs with dermatological conditions.

The Environment, Safety and Efficacy regulatory modules were submitted with supporting documentation that has been generated by the Company in the last 3 years of development. This complements the submission of the Toxicology and Chemistry regulatory modules previously announced to market.

The data in the final regulatory filings include;

- A randomised placebo-controlled double-blind study in client owned dogs with atopic dermatitis, which demonstrated a significant reduction in CADESI-4 scores (veterinarian scored, multi point skin damage and redness assessments) and inflammatory biomarkers, in dogs treated with DermaCann® compared with placebo;
- A randomised controlled Target Animal Safety Study in healthy colony-housed beagles conducted by Summit Ridge Farms, Pennsylvania, confirming DermaCann® to be safe for use at 1x, 3x and 5x the planned therapeutic dose
- Safety and efficacy data on the use of all proprietary ingredients used in DermaCann® to provide strong literature-based support for the use of DermaCann® as a complementary therapy in the management of dermatological condition in dogs.

**DIRECTORS' REPORT
FOR THE HALF-YEAR ENDED 31 DECEMBER 2021**

The overall dossier in which these modules form the final components is in the process of being reviewed under an APVMA agreed time shift application plan. Completion of the review of all modules is anticipated in September 2022.

Commenced DermaCann® product registration in New Zealand

AusCann was also pleased to advise that during the period, it appointed Intuit Regulatory Ltd, a Ministry of Primary Industries ('MPI') approved data assessor, to complete a Data Assessment Report for the New Zealand Authorisation of DermaCann® as an Agricultural Compounds and Veterinary Medicine ('ACVM').

Prior to the authorisation to import, manufacture, sell, or use an ACVM in New Zealand, it must be authorised with the Ministry of Primary Industries. The MPI requires an independent data assessment to be completed as a first step before an application for registration is made under the ACVM Act 1997.

Dr Julia McNab of Intuit Regulatory Ltd, is an ACVM-registered Independent Data Assessor and has been appointed to assess all aspects of the veterinary medicine data package for the New Zealand Authorisation of DermaCann®, including Chemistry and Manufacturing, Safety and Efficacy.

Held Successful Pre-Submission Meeting with the U.S Food and Drug Administration for CPAT-01

During the period, the Company held a successful Pre-Submission Conference meeting ('PSC') with the U.S Food and Drug Administration, Centre for Veterinary Centre ('FDA-CVM') to discuss the development program and regulatory pathway for CPAT-01 in the United States.

The PSC meeting package was prepared with assistance from the Company's regulatory consultants and included an overview of the CPAT-01 program, with specific questions relating to the various technical sections required for a New Animal Drug Application to seek approval for CPAT-01.

The meeting was attended by representatives in various divisions from the FDA-CVM, including the Division of Companion Animal Drugs, Manufacturing Technologies, Toxicology, Environment, Clinical Pharmacology and Target Animal Safety.

The representatives from the FDA-CVM were highly engaged in the meeting and confirmed that the development program and manufacturing strategy for CPAT-01 is consistent with the agency's expectations.

AusCann has commenced the design phase for its Phase 2C clinical effectiveness trial to generate final pilot data to inform the design of the Company's Phase 3 pivotal program to support a NADA for the approval of CPAT-01, as a world "first-in-class" U.S FDA registered veterinary medicine.

Appointed Tod McGrouther as new Chairperson

During the quarter, the Board announced the appointment of Mr Tod McGrouther as the Company's new Chairperson of the Board, following the resignation of Max Johnstone in November 2021. Mr Tod McGrouther has over 35 years' experience in the Australian capital markets primarily in the areas of equity capital markets and corporate advisory.

Since 2018 Mr McGrouther has been a Director of European Cannabis Corporation Limited ("ECC"), an Australian company which has built and operates a German EU GMP certified medicinal cannabis growth facility located in Spanchevo, Macedonia. ECC has also built and operates a German EU GMP certified medicinal cannabis extraction facility located in Skopje, Macedonia.

ECC also holds all relevant licenses and approvals to operate a pharmaceutical distribution business in Dortmund, Germany.

Mr McGrouther is currently a Non-Executive Director of three ASX listed companies - NSX Limited, Urbanise Limited and Love Group Limited. Mr McGrouther is also Chairman of The National Stock Exchange of Australia Limited a subsidiary of NSX Limited.

DIRECTORS' REPORT
FOR THE HALF-YEAR ENDED 31 DECEMBER 2021

Events Subsequent to Reporting Date

The impact of the Coronavirus (COVID-19) pandemic is ongoing and while it has been financially positive for the consolidated entity up to 31 December 2021, it is not practicable to estimate the potential impact, positive or negative, after the reporting date. The situation is rapidly developing and is dependent on measures imposed by the Australian Government and other countries, such as maintaining social distancing requirements, quarantine, travel restrictions and any economic stimulus that may be provided.

On 16 February 2022, 2,000,000 CEO Performance Rights and 1,000,000 CFO Performance Rights, which were previously granted during the year-ended 30 June 2021 to the CEO and CFO respectively, were issued. Refer to Note 11 for further details.

On 16 February 2022, 500,000 Performance Rights which were granted during the half-year were also issued to Dr. Margaret Curtis, one of the Company's key management personnel. Refer to note 11 for further details.

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

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DIRECTORS' REPORT
FOR THE HALF-YEAR ENDED 31 DECEMBER 2021

Auditor's Independence Declaration

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

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

On behalf of the directors



Tod McGrouther
Chairman

28 February 2022

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**AUDITOR'S INDEPENDENCE DECLARATION
TO THE DIRECTORS OF AUSCANN GROUP HOLDINGS LIMITED**

In relation to our review of the financial report of AusCann Group Holdings Limited for the half year ended 31 December 2021, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.



PKF PERTH



SIMON FERMANIS
PARTNER

28 FEBRUARY 2022
WEST PERTH,
WESTERN AUSTRALIA

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AUSCANN GROUP HOLDINGS LTD

ABN 72 008 095 207

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME FOR THE HALF-YEAR ENDED 31 DECEMBER 2021**

	Note	2021 \$	2020 \$
Sales		29,342	39,364
Less: Cost of goods sold		(18,280)	(35,839)
Net Sales Income		11,062	3,525
Gain on disposal of right-of-use asset and lease liability		-	8,804
Rental income		213,750	-
Interest revenue		19,600	52,645
Other income		49,030	17,500
Total Income		293,442	82,474
Employee benefits expense	3(i)	(1,041,518)	(1,412,048)
Consulting fees	3(ii)	(101,898)	(290,252)
Research and development (direct costs)	3(iii)	(962,487)	(1,352,896)
Depreciation and amortisation	3(iv)	(933,042)	(127,315)
Corporate/Administration expenses		(408,908)	(774,723)
Other expenses	3(v)	(312,458)	(676,468)
Total Expenses		(3,760,311)	(4,633,702)
Loss Before Tax from Continuing Operations		(3,466,869)	(4,551,228)
Income tax expense		-	-
Loss After Tax from Continuing Operations		(3,466,869)	(4,551,228)
Profit/(Loss) after income tax expense from discontinued operations	2, 4	(686,521)	(45,518)
Net Loss After Tax for the Period		(4,153,390)	(4,596,746)
Other comprehensive income, net of tax		-	-
Total Comprehensive Loss for the Period		(4,153,390)	(4,596,746)
Loss per Share from Continuing Operations			
Basic and diluted loss per share (cents per share)		(0.75)	(1.45)
Loss per Share from Continuing and Discontinued Operations			
Basic and diluted loss per share (cents per share)		(0.94)	(1.45)

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

AUSCANN GROUP HOLDINGS LTD
ABN 72 008 095 207

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2021

	Note	December 2021 \$	June 2021 \$
CURRENT ASSETS			
Cash and cash equivalents		11,399,287	13,679,923
Inventories	5	212,898	212,898
Other current assets	10	555,117	1,336,945
Total Current Assets		12,167,302	15,229,766
NON-CURRENT ASSETS			
Right-of-use asset	6	61,798	84,972
Investment property	7	11,040,094	11,111,439
Property, plant and equipment	8	805,225	854,061
Intangible assets	9	16,248,259	17,037,944
Other non-current assets	10	868,264	801,179
Total Non-Current Assets		29,024,039	29,889,595
Total Assets		41,191,341	45,119,361
CURRENT LIABILITIES			
Trade and other payables	11	665,217	467,095
Lease liabilities	6	46,792	45,433
Employee entitlements		132,084	139,266
Total Current Liabilities		844,093	651,794
NON CURRENT LIABILITIES			
Lease liabilities	6	16,083	39,871
Total Non Current Liabilities		16,083	39,871
Total Liabilities		860,176	691,665
NET ASSETS		40,331,166	44,427,696
EQUITY			
Issued capital		93,165,187	93,165,187
Reserves		608,158	786,388
Accumulated losses		(53,442,179)	(49,523,879)
TOTAL EQUITY		40,331,166	44,427,696

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

AUSCANN GROUP HOLDINGS LTD

ABN 72 008 095 207

**CONSOLIDATED STATEMENT OF CHANGES IN
EQUITY FOR THE HALF-YEAR ENDED 31 DECEMBER 2021**

	Issued Capital \$	Share- Based Payment Reserve \$	Accumulated Losses \$	Total \$
Balance at 1 July 2020	75,468,632	1,273,328	(42,105,988)	34,635,972
Loss after income tax for the period	-	-	(4,596,746)	(4,596,746)
Other comprehensive income for the period, net of tax	-	-	-	-
	-	-	(4,596,746)	(4,596,746)
<i>Transactions With Owners In Their Capacity As Owners</i>				
Share based payments	-	176,263	-	176,263
Expired / lapsed options / performance rights	-	(1,223,500)	1,223,500	-
Balance at 31 December 2020	75,468,632	226,091	(45,479,234)	30,215,489

	Issued Capital \$	Share- Based Payment Reserve \$	Accumulated Losses \$	Total \$
Balance at 1 July 2021	93,165,187	786,388	(49,523,879)	44,427,696
Loss after income tax for the period	-	-	(4,153,390)	(4,153,390)
Other comprehensive income for the period, net of tax	-	-	-	-
	-	-	(4,153,390)	(4,153,390)
<i>Transactions With Owners In Their Capacity As Owners</i>				
Share based payments	-	56,860	-	56,860
Expired / lapsed options / performance rights	-	(235,090)	235,090	-
Balance at 31 December 2021	93,165,187	608,158	(53,442,179)	40,331,166

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

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AUSCANN GROUP HOLDINGS LTD

ABN 72 008 095 207

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2021**

	2021 \$	2020 \$
CASH FLOW FROM OPERATING ACTIVITIES		
Interest received	19,600	52,618
Government grants and incentives	-	67,500
Receipts from customers	26,019	18,209
Rental income	79,166	-
Refunds from suppliers	49,030	-
Payments to suppliers and employees	(2,430,750)	(4,261,935)
Net Cash Used In Operating Activities	(2,256,936)	(4,123,608)
CASH FLOW FROM INVESTING ACTIVITIES		
Payments for loans to DayaCann	-	(45,518)
Payments for buildings and building improvements	-	(7,712)
Payments for plant and equipment	-	(2,727)
Deposit received from sale of DayaCann	-	269,906
Net Cash Flows from Investing Activities	-	213,940
CASH FLOW FROM FINANCING ACTIVITIES		
Repayment of lease liabilities	(23,700)	(21,648)
Net Cash Flows from Financing Activities	(23,700)	(21,648)
Net Increase / (Decrease) in Cash and Cash Equivalents	(2,280,636)	(3,931,316)
Cash and cash equivalents at the beginning of the period	13,679,923	19,165,661
Cash and Cash Equivalents at the End of the Period	11,399,287	15,234,345

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

AUSCANN GROUP HOLDINGS LTD

ABN 72 008 095 207

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2021

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES

These financial statements and notes represent those of AusCann Group Holdings Ltd (“the Company”) and its controlled entity (collectively “the consolidated entity”) for the half-year ended 31 December 2021.

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 February 2022.

(a) Basis Of Preparation

These general purpose financial statements for the interim half-year reporting period ended 31 December 2021 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*.

These general purpose financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 30 June 2021 and any public announcements made by the company during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*. These financial statements have been prepared on the basis of historical costs, except for the statement of cashflows. Cost is based on the fair values of consideration in exchange for assets. All amounts are presented in Australian Dollars unless otherwise noted.

(b) Accounting Policies

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

(c) New or Amended Accounting Standards and Interpretations Adopted

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

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

NOTE 2: SEGMENT DISCLOSURES

During the previous financial year, the consolidated entity operated in one business segment, being the research and development of medicinal cannabis. This activity was established in both Australia and in Chile (via the consolidated entity’s joint venture with DayaCann) until the divestment of the consolidated entity’s interest in the joint venture on 22 March 2021.

Based on the above the Board of Directors of AusCann Group Holdings Ltd (chief operating decision makers) identified two main reportable segments of the consolidated entity’s business:

- Research and development of medicinal cannabis (based in Australia); and
- Research and development of medicinal cannabis in Chile, which is disclosed as part of discontinued operations.

AUSCANN GROUP HOLDINGS LTD

ABN 72 008 095 207

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2021

This focus is consistent with the internal reports that are reviewed and used by the Board of Directors of AusCann Group Holdings Ltd (chief operating decision makers) in assessing performance and determining the allocation of resources.

NOTE 2: SEGMENT DISCLOSURES (CONTINUED)

Half-Year Ended 31 December 2021 Consolidated

	Corporate \$	Medicinal Cannabis Research and Development \$	Discontinued Operations \$	Total \$
Revenue				
Sales	-	29,342	-	29,342
Less: Cost of goods sold	-	(18,280)	-	(18,280)
Net Sales Income from External Customers	-	11,062	-	11,062
Gain on disposal of right of use asset & liability	-	-	-	-
Rental income	-	213,750	-	213,750
Interest received	19,600	-	-	19,600
Other income	-	49,030	-	49,030
Total Revenue	19,600	273,842	-	293,422
Expenses				
Employee benefits expense	-	984,658	-	984,658
Share based payment expense - employees	56,680	-	-	56,680
Consulting fees	-	101,898	-	101,898
Research and development (direct expenses)	-	962,487	-	962,487
Joint venture expenses - impairment of loan in Dayacann	-	-	-	-
Depreciation and amortisation	5,004	928,038	-	933,042
Provision for doubtful debts	-	-	686,521	686,521
Corporate, administration and other expenses	6,945	714,421	-	721,366
Total Expenses	68,629	3,691,502	686,521	4,446,832
Loss Before Income Tax	(49,209)	(3,417,660)	(686,521)	(4,153,390)
Income tax (expense)	-	-	-	-
Loss After Income Tax	(49,209)	(3,417,660)	(686,521)	(4,533,390)

As at 31 December 2021

Assets

Segment assets	10,886,476	29,576,558	728,901	41,191,935
Total Assets	10,886,476	29,576,558	728,901	41,191,935

Liabilities

Segment liabilities	9,204	850,972	-	860,176
Total Liabilities	9,204	850,972	-	860,176

AUSCANN GROUP HOLDINGS LTD

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2021

NOTE 2: SEGMENT DISCLOSURES (CONTINUED)

Half-Year Ended 31 December 2020

Consolidated	Corporate \$	Medicinal Cannabis Research and Development \$	Discontinued Operations \$	Total \$
Revenue				
Sales	-	39,364	-	39,364
Less: Cost of goods sold	-	(35,839)	-	(35,839)
Net Sales Income from External Customers	-	3,525	-	3,525
Gain on disposal of right of use asset & liability	-	8,804	-	8,804
Other income	-	17,500	-	17,500
Interest received	52,645	-	-	52,645
Total Revenue	52,645	29,829	-	82,474
Expenses				
Employee benefits expense	-	1,235,785	-	1,235,785
Share based payment expense - employees	176,263	-	-	176,263
Consulting fees	-	290,252	-	290,252
Research and development (direct expenses)	-	1,352,896	-	1,352,896
Joint venture expenses - impairment of loan in Dayacann	-	-	45,518	45,518
Depreciation and amortisation	8,383	118,932	-	127,315
Provision for doubtful debts	-	-	-	-
Corporate, administration and other expenses	251,097	1,200,004	-	1,451,191
Total Expenses	435,743	4,197,959	45,518	4,679,220
Loss Before Income Tax	(383,098)	(4,168,130)	(45,518)	(4,596,746)
Income tax (expense)	-	-	-	-
Loss After Income Tax	(383,098)	(4,168,130)	(45,518)	(4,596,746)

As at 30 June 2021

Assets

Segment assets	13,629,581	30,163,762	1,326,018	45,119,361
Total Assets	13,629,581	30,163,762	1,326,018	45,119,361

Liabilities

Segment liabilities	9,204	682,461	-	691,665
Total Liabilities	9,204	682,461	-	691,665

AUSCANN GROUP HOLDINGS LTD

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2021**

NOTE 3: INCOME & EXPENSES

December 2021
\$

December 2020
\$

Expenses

Total expenses include the following specific expenses:

(i) Employee Benefits

Employee benefits expense	984,658	1,235,785
Performance shares/rights	52,155	162,831
Share options	4,705	13,432
	<u>1,041,518</u>	<u>1,412,048</u>

(ii) Consulting Fees

Consulting fees- other	40,000	290,252
Consulting fees- directors	61,898	-
	<u>101,898</u>	<u>290,252</u>

(iii) Research and Development (Direct Costs)

Raw materials	46,981	415,361
Contract manufacturing R&D	277,082	242,250
Consultants – R&D	271,363	318,073
Analytics	153,518	375,544
Site costs	52,627	-
Pharmaceutical development	136,065	-
Other	24,852	1,666
	<u>962,487</u>	<u>1,352,896</u>

(iv) Depreciation and Amortisation

Right-of-use asset	23,174	18,849
Property, plant and equipment	49,238	108,466
Investment property	70,945	-
Intangible assets (Note 9)	789,685	-
	<u>933,042</u>	<u>127,315</u>

(v) Other Expenses

Legal and professional fees	130,315	483,071
Travel and accommodation	10,103	4,042
Licenses and permits	38,036	23,211
Marketing	43,983	34,039
Other	90,021	132,105
	<u>312,458</u>	<u>676,468</u>

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AUSCANN GROUP HOLDINGS LTD

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NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2021

NOTE 4: INTEREST IN JOINT VENTURES AND DISCONTINUED OPERATIONS

The consolidated entity had a 50% interest in DayaCann SpA ("DayaCann") which was a for-profit joint venture established to grow medicinal cannabis in Chile. As the entity was a jointly controlled entity it was treated as a joint venture under AASB 11 *Joint Arrangements*, with the consolidated entity's investment in DayaCann accounted for using the equity method in the consolidated financial statements.

On 10 November 2020, AusCann announced an agreement with GrowForChile SpA ("GFC") and Telor International Limited ("Telor") in respect to the sale of the consolidated entity's 50% owned Chilean joint venture, DayaCann. On 22 March 2021, AusCann announced it had finalised the sale of the Company's right, title and interest in DayaCann, and the transfer of the Company's loan.

An amount of USD \$200,000 was received on signing in December 2020. A further payment of USD \$200,000 was received in March 2021. These were in consideration for AusCann's 50% interest in DayaCann shares. An amount of USD \$100,000 was received in February 2021 towards the transfer of the loan. AusCann was expecting to receive further receipts totalling USD \$1,000,000 towards the transfer of the loan over the next two years (USD \$500,000 by 28 February 2022 and USD \$500,000 by 28 February 2023).

The USD \$1,000,000 is currently in dispute and the USD \$500,000 due by 28 February 2022 has been provided for as an impairment charge. Refer to Note 10 for further details.

The consolidated entity's interest in the joint venture up to 22 March 2021 was reported in the year ended 30 June 2021 as a discontinued operation. See Note 2 for amounts reported during the half-year and corresponding previous periods.

NOTE 5: INVENTORIES

	December 2021	June 2021
	\$	\$
Raw materials	2,774,058	2,774,058
Work in progress	2,665	2,665
Finished goods	29,592	29,592
Less: Provision for stock obsolescence	(2,593,417)	(2,593,417)
	<u>212,898</u>	<u>212,898</u>

Since the financial year ended 30 June 2021, there were no indicators of impairment which would materially change the provision for stock obsolescence.

NOTE 6: RIGHT-OF-USE ASSET AND LEASE LIABILITIES

	December 2021	June 2021
	\$	\$
Right-of-Use Asset		
Land and buildings – right-of-use	92,697	92,697
Less: Accumulated depreciation	(30,899)	(7,725)
	<u>61,798</u>	<u>84,972</u>
Lease Liabilities		
Current lease liabilities	46,792	45,433
Non-current lease liabilities	16,083	39,871
	<u>62,875</u>	<u>85,304</u>

The consolidated entity's right-of-use asset and lease liability balances relates to a 2-year lease which the Company's subsidiary, CannPal, entered into on 22 April 2021. On renewal of the consolidated entity's leases, the terms of the leases are renegotiated. The consolidated entity also leases car parking spaces, but this lease is either short-term or low-value, so has been expensed as incurred and not capitalised as right-of-use assets.

AUSCANN GROUP HOLDINGS LTD

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2021****NOTE 7: INVESTMENT PROPERTY**

On 17 June 2021, the Company entered into an agreement to lease the Company's research and development facility in Wangara, Western Australia to Source Certain International ("SCI"). The key terms of the agreement between the Company and SCI are detailed in annual report for the year ended 30 June 2021.

The investment property's rental income is shown within revenue, the amount representing straight-line amortisation of the rental income to be received by the Company over the next 5 years to 17 June 2026, taking the 6-month lease incentive into account.

The risks associated with rights the Company retains in underlying assets are not considered to be significant. The investment property has been valued at cost.

In line with expected valuation cycles the company will obtain a full valuation on its investment property prior to 30 June 2022.

	December 2021 \$	June 2021 \$
Amounts Recorded at fair value (30 June 2021: At amortised cost)		
Land and buildings	11,265,237	11,265,237
Less: Accumulated depreciation	(224,743)	(153,798)
	<u>11,040,494</u>	<u>11,111,439</u>
Future Minimum Lease Payments Due from Tenant		
Within 1 year	475,000	316,667
1 to 2 years	475,000	475,000
2 to 3 years	475,000	475,000
3 to 4 years	475,000	475,000
4 to 5 years	158,333	395,833
	<u>2,058,333</u>	<u>2,137,500</u>

NOTE 8: PROPERTY, PLANT AND EQUIPMENT

	December 2021 \$	June 2021 \$
Computer equipment at cost	40,730	40,328
Less: Accumulated depreciation	(34,535)	(31,709)
	<u>6,195</u>	<u>8,619</u>
Furniture and fittings at cost	90,087	90,087
Less: Accumulated depreciation	(70,605)	(67,221)
	<u>19,482</u>	<u>22,866</u>
Plant and equipment at cost	916,554	916,554
Less: Accumulated depreciation	(137,005)	(93,978)
	<u>779,548</u>	<u>822,576</u>
Total	<u>805,225</u>	<u>854,061</u>

AUSCANN GROUP HOLDINGS LTD

ABN 72 008 095 207

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2021**

NOTE 9: INTANGIBLE ASSETS	December 2021	June 2021
	\$	\$
Acquired intellectual property (see Note 13)	17,492,283	17,492,283
Less: Accumulated amortisation	(1,244,024)	(454,339)
	<u>16,248,259</u>	<u>17,037,944</u>

Since the financial year ended 30 June 2021, there were no indicators of impairment which would materially change the valuation of the acquired intellectual property.

NOTE 10: OTHER ASSETS	December 2021	June 2021
	\$	\$
Current		
Accounts Receivable	45,144	41,821
Accrued income	205,834	71,251
GST receivable	93,477	163,663
Accrued interest	17,500	17,989
Prepayments	151,154	215,841
Deferred consideration for sale of DayaCann (see Note 4)	686,529	664,202
Provision for impairment on deferred consideration for sale of DayaCann (i)	(686,529)	
Short term deposits	12,000	162,178
	<u>555,110</u>	<u>1,336,945</u>
Non Current		
Prepayments	139,363	139,363
Deferred consideration for sale of DayaCann	728,901	661,816
	<u>868,273</u>	<u>801,179</u>
	<u>1,423,383</u>	<u>2,138,124</u>

(i) Movement in provision for expected credit losses

Balance at 1 July	-	-
Provision for expected credit losses during the period	686,529	-
Balance at 31 December / 30 June	<u>686,529</u>	<u>-</u>

The Group considers that there is evidence of impairment if any of the following indicators are present: financial difficulties of the debtor, probability that the debtor will dispute amounts owing and default or delinquency in payment (more than one year old).

During the period, an assessment was made of the recoverable balances as at 31 December 2021. Each receivable has been assessed individually for recovery, and those deemed to have a low chance of recovery have been fully provided for in the current period.

During the period there was a dispute with GrowForChile SpA ("GFC") and Telor International Limited who claimed a breach of warranty under the share sale agreement. The Group believes that it will succeed in the dispute, however due to the SPA being governed by Chilean law and is subject to arbitration in Chile the Group identified this as an impairment indicator for the current deferred consideration receivables for the sale of DayaCann. In line with this indication of impairment, the current deferred consideration receivables for the sale of DayaCann have been fully provided for.

AUSCANN GROUP HOLDINGS LTD

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NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2021

NOTE 11: TRADE AND OTHER PAYABLES

	December 2021	June 2021
	\$	\$
Trade payables and accrued expenses	600,254	366,391
PAYG and superannuation payable	64,963	100,704
	665,217	467,095

NOTE 12: SHARE-BASED PAYMENTS

Share-based payments of key management and other personnel are disclosed in Note 20 of the annual financial report for the year ended 30 June 2021.

In addition, during the half-year on 1 July 2021, the Company granted 500,000 performance rights to Dr Margaret Curtis pursuant to the Company's Employee Securities Incentive Plan approved by Shareholders on 27 November 2018 and in accordance with her employment contract.

Dr Curtis' Performance Rights will consist of four (4) equal tranches of 125,000 Performance Rights with market-based achievement goals over a five-year term commencing 1 July 2021 as follows:

- Tranche 1: the share price achieving a minimum of \$0.30 for 30 consecutive days;
- Tranche 2: the share price achieving a minimum of \$0.50 for 30 consecutive days;
- Tranche 3; the share price achieving a minimum of \$0.75 for 30 consecutive days; and
- Tranche 4: the share price achieving a minimum of \$1.00 for 30 consecutive days.

The total fair value of Dr Curtis' CEO Performance Rights has been calculated at \$6,083 The fair value was calculated using a Parisian Barrier valuation model and the following assumptions were used in the estimation:

	<i>Tranche 1</i>	<i>Tranche 2</i>	<i>Tranche 3</i>	<i>Tranche 4</i>
Fair value per right	\$0.1196	\$0.1004	\$0.0841	\$0.0723
Number of rights	125,000	125,000	125,000	125,000
Total fair value of tranche	\$14,950	\$12,550	\$10,513	\$9,038
<i>Assumptions</i>				
Spot price	\$0.15	\$0.15	\$0.15	\$0.15
Exercise price	Nil	Nil	Nil	Nil
Barrier price	\$0.30	\$0.50	\$0.75	\$1.00
Vesting date	N/A	N/A	N/A	N/A
Expiry date	18 March 2026	18 March 2026	18 March 2026	18 March 2026
Vesting schedule	30 consecutive days above exercise price	30 consecutive days above exercise price	30 consecutive days above exercise price	30 consecutive days above exercise price
Expected future volatility	80%	80%	80%	80%
Risk-free rate	0.73%	0.73%	0.73%	0.73%
Dividend yield	Nil	Nil	Nil	Nil

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2021**

NOTE 12: SHARE-BASED PAYMENTS (CONTINUED)

The performance rights were issued subsequent to half-year on 16 February 2022. None of the performance rights vested during the half-year. The share-based payment expense arising from the amortisation of the fair value of the above Performance Rights, and for options and performance rights vesting from prior periods, was \$56,860 (2020: \$176,263) during the half-year ended 31 December 2021. Subsequent to 31 December 2021, on 16 February 2022, the following performance rights, which were previously granted during the year-ended 30 June 2021, were also issued to the following key management personnel:

- 2,000,000 CEO Performance Rights to Mr Layton Mills. Details of his performance rights including vesting conditions and fair value valuation are included in Note 20(b) of the annual financial report for the year ended 30 June 2021; and
- 1,000,000 CFO Performance Rights to Mr Charles Altshuler. Details of his performance rights including vesting conditions and fair value valuation are included in Note 20(c) of the annual financial report for the year ended 30 June 2021.

NOTE 13: COMMITMENTS

Commitment under Neuvis Manufacturing Development Agreement:

	December 2021	June 2021
	\$	\$
Committed at the reporting date:		
Within one year	95,724	-
Between one and five years	-	-
Total commitment	95,724	-
Less: Future finance charges	-	-
Net commitment recognised	95,724	-

On 10 November 2021, the Group entered into an agreement with Ausphex Pty Ltd (“Ausphex”) for the process development for the Group’s Neuvis brand at the Ausphex’s facility. The commitment totalled \$195,000, of which \$99,273 was paid before period end. The remaining commitment of \$95,724 is to be paid in equal monthly payments of \$10,636 per month.

The Group has no other material capital or other commitments other than as listed above.

NOTE 14: CONTINGENT LIABILITIES

The Group are currently in dispute with GrowForChile SpA (“GFC”) and Telor International Limited (“Telor”), who bought 50% of DayaCann from the Group during the prior year. The disputed amounts are in relation to the USD 1,000,000 to be transferred to the Group, of which USD 500,000 was due on 28 February 2022 and the other USD 500,000 is due by 28 February 2023. Based on the sale and purchase agreement, the Group does not have any outstanding obligations and consider GFC and Telor’s claims to be unjustified. However, due to the matter being in dispute, there may be legal fees incurred. The magnitude of these legal fees cannot be determined at the date of this report.

In addition, the Group has recognised a provision for expected credit losses on the amount which was due on 28 February 2022 (refer to note 10). The Group has not recognised a provision for impairment on the amount due on 28 February 2023.

Other than the above, the Group is not aware of any other contingent liabilities.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2021**

NOTE 15: EVENTS SUBSEQUENT TO REPORTING DATE

The impact of the Coronavirus (COVID-19) pandemic is ongoing and while it has been financially positive for the consolidated entity up to 31 December 2021, it is not practicable to estimate the potential impact, positive or negative, after the reporting date. The situation is rapidly developing and is dependent on measures imposed by the Australian Government and other countries, such as maintaining social distancing requirements, quarantine, travel restrictions and any economic stimulus that may be provided.

On 16 February 2022, 2,000,000 CEO Performance Rights and 1,000,000 CFO Performance Rights, which were previously granted during the year-ended 30 June 2021 to the CEO and CFO respectively, were issued. Refer to Note 11 for further details.

On 16 February 2022, 500,000 Performance Rights which were granted during the half-year were also issued to Dr. Margaret Curtis, one of the Company's key management personnel. Refer to note 11 for further details.

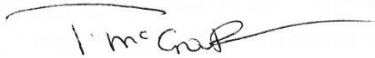
Other than as identified above, no events occurring subsequent to the end of the financial period have significantly affected, or may significantly affect, the operations of the consolidated entity in subsequent financial periods.

DIRECTORS' DECLARATION

The Directors of the consolidated entity declare that:

1. The financial statements and notes are in accordance with the *Corporations Act 2001*, including:
 - (a) giving a true and fair view of the financial position of the consolidated entity as at 31 December 2021 and of its performance for the half-year ended on that date; and
 - (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*; and
2. There are reasonable grounds to believe that the consolidated entity will be able to pay its debts as and when they become due and payable.

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



Tod McGrouther
Chairman

28 February 2022

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INDEPENDENT AUDITOR'S REVIEW REPORT

TO THE MEMBERS OF AUSCANN GROUP HOLDINGS LIMITED

Report on the Half-Year Financial Report

Conclusion

We have reviewed the accompanying half-year financial report of AusCann Group Holdings Limited (the "Company") and controlled entities (the "consolidated entity") which comprises the consolidated statement of financial position as at 31 December 2021, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information and the Directors' Declaration of the Company and the entities it controlled at 31 December 2021, or during the half year.

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

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2021 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001.

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.

Independence

We are independent of the Company in accordance with the auditor independence requirements of 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 (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.

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Directors' Responsibility for the Half-Year Financial Report

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

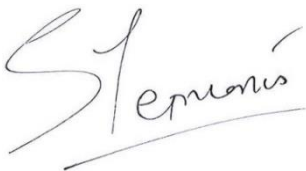
Auditor's Responsibilities for the Review of the Financial Report

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 consolidated entity's financial position as at 31 December 2021 and its performance for the half year ended on that date; and complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporation Regulations 2001.

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.

PKF Perth

PKF PERTH



SIMON FERMANIS
PARTNER

28 FEBRUARY 2022
WEST PERTH,
WESTERN AUSTRALIA

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