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AusCann Group Holdings Ltd
ABN 72 008 095 207

**Appendix 4D and
Half-Year Financial
Report**

31 December 2022

AusCann

APPENDIX 4D
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 2022
- Previous corresponding period – half-year ended 31 December 2021

Results for Announcement to the Market

		%		\$
Revenues from ordinary activities	<i>Up</i>	73%	<i>to</i>	506,610
Loss from ordinary activities after tax attributable to members	<i>Down</i>	68%	<i>to</i>	1,311,310
Net loss from the period attributable to members	<i>Down</i>	68%	<i>to</i>	1,311,310
Final and interim dividends	Nil			
Record date for determining entitlements to dividends	N/A			

	Reporting period	Previous corresponding period
Net tangible asset backing per ordinary share	3.83 cents	4.12 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 2022.

Dividends

The Board has not declared dividends or made dividend payments during the half-year ended 31 December 2022. The Company does not have any dividend or distribution reinvestment plans in operation.

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

COMPANY INFORMATION

DIRECTORS

Mr Tod McGrouther (appointed 14 December 2021)
Ms Krista Bates (resigned 3 January 2023)
Mr Robert Clifford
Mr Chris Mews

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/>.

AUDITORS

PKF Perth
Level 5
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

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 2022 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*.

AUSCANN GROUP HOLDINGS LTD

ABN 72 008 095 207

DIRECTORS' REPORT FOR THE HALF-YEAR ENDED 31 DECEMBER 2022

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 2022.

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

Mr Robert Clifford

Mr Chris Mews

Ms Krista Bates

Resigned 3 January 2023

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 \$1,311,310 (2021: \$4,153,390), which included non-cash amortisation/depreciation costs of \$99,558.

Excluding non-cash costs, the total expenses reduced by 39% to \$1,718,362 for the period (2021: \$2,827,269). This decrease was due to operational efficiencies and continued reductions in administration, corporate, and employee expenses.

Rental income of \$190,289 (2021: \$213,750) 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 \$283,101 accounted for 16% of the Company's total expenses for the half-year (2021: \$962,487, 26%). These expenses directly relate to core revenue generating activities for the Company's lead medicinal cannabis programs.

Loss from discontinued operations of \$686,521 in 2021 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.

AusCann has net cash of \$599,036 (2021: \$11,399,287). Cash used in operating activities of \$1,341,648 for the half year represents a reduction of 41% versus 2021 (2021: \$2,256,936).

**DIRECTORS' REPORT
FOR THE HALF-YEAR ENDED 31 DECEMBER 2022**

REVIEW OF OPERATIONS

The AusCann Group Holdings consolidated entity (AusCann) is pleased to report on the key highlights for the period ending December 31, 2022.

Increase in Loan Facility to EuroCann

As announced on 29 August 2022, the Company had previously entered into a secured loan facility with European Cannabis Corporation Limited in connection with the Company and EuroCann exploring mutual opportunities in the European and Australian cannabis markets.

During the period, the Company and EuroCann agreed to increase the facility provided by the Company under the Secured Loan Agreement by an additional A\$3.75 million.

Other than the Additional Advance, the terms of the Secured Loan Agreement remain as per the Company's announcement on 29 August 2022.

Proposed Transaction and Trading Suspension

In addition to reviewing its animal health portfolio, AusCann has been exploring other potential transactions which may include strategic acquisitions or mergers. As a result of this, the fully paid ordinary shares of AusCann were suspended from quotation at the request of ASX on 31 August 2022, pending the release of an announcement of a proposed transaction under Listing Rule 11.1. The ASX has exercised its discretion under Listing Rule 11.1.2 to require the Proposed Transaction to be conditional on approval by AusCann's ordinary security holders and under Listing Rule 11.1.3 to require AusCann to re-comply with Chapters 1 and 2 of the ASX Listing Rules.

It is expected that AusCann's Shares will remain suspended until AusCann has recompiled with Chapters 1 and 2 of the Listing Rules.

The Company continues to progress due diligence in relation to the proposed transaction and AusCann will provide the market with further updates in relation to the Proposed Transaction in due course.

Wangara Facility Sale

In September 2022, the Company announced its wholly-owned subsidiary, AusCann Operations PtyLtd ('AusCann Ops') had entered into a conditional contract for the sale of the property held by AusCann Ops at 11 Excellence Drive, Wangara, Western Australia.

However, as announced in the September 2022 quarterly update, the conditional contract lapsed as a result of incomplete due diligence within the allocated timeline. The Company remains in ongoing discussions with this purchaser, and other interested parties, and will continue to update the market in relation to the sale of the facility **[ASX:AC8 29 September, 2022]**.

**DIRECTORS' REPORT
FOR THE HALF-YEAR ENDED 31 DECEMBER 2022**

Events Subsequent to Reporting Date

Resignation of Director

On 3 January 2023, the Company announced that Mrs Krista Bates had resigned from her position as Non-executive Director of the Company to pursue other corporate interests, following the completion of a 3-year term with AusCann.

Mrs Bates is an experienced and highly credentialed non-executive and executive director of listed companies (Australian Stock Exchange and London Stock Exchange) and played an active role in helping navigate the restructuring of the business as both a director and as interim Chairwoman of AusCann since her appointment in December, 2019.

The Board and Management would like to thank Krista for her contribution and support of the Company and wishes her well in her other business endeavours.

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.

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 2023

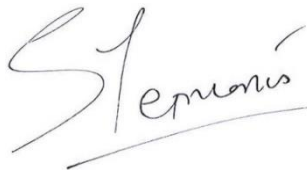
AUDITOR'S INDEPENDENCE DECLARATION

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 2022, 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

PKF PERTH



SIMON FERMANIS
PARTNER

28 FEBRUARY 2023
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 2022**

	Note	2022 \$	2021 \$
Sales		-	29,342
Less: Cost of goods sold		(20,438)	(18,280)
Net Sales Income		(20,438)	11,062
Government grants		24,600	-
Rental income		190,289	213,750
Interest revenue		312,159	19,600
Other income		-	49,030
Total Income		506,610	293,442
Employee benefits expense	3(i)	(470,292)	(1,041,518)
Consulting fees	3(ii)	(130,367)	(101,898)
Research and development (direct costs)	3(iii)	(283,101)	(962,487)
Depreciation and amortisation	3(iv)	(99,558)	(933,042)
Corporate/Administration expenses		(309,009)	(408,908)
Other expenses	3(v)	(525,593)	(312,458)
Total Expenses		(1,817,920)	(3,760,311)
Loss Before Tax from Continuing Operations		(1,311,310)	(3,466,869)
Income tax expense		-	-
Loss After Tax from Continuing Operations		(1,311,310)	(3,466,869)
Profit/(Loss) after income tax expense from discontinued operations	2, 4	-	(686,521)
Net Loss After Tax for the Period		(1,311,310)	(4,153,390)
Other comprehensive income, net of tax		-	-
Total Comprehensive Loss for the Period		(1,311,310)	(4,153,390)
Loss per Share from Continuing Operations			
Basic and diluted loss per share (cents per share)		(0.30)	(0.75)
Loss per Share from Continuing and Discontinued Operations			
Basic and diluted loss per share (cents per share)		(0.30)	(0.94)
			\$

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 2022

	Note	December 2022 \$	June 2022 \$
CURRENT ASSETS			
Cash and cash equivalents		599,036	5,716,641
Inventories	5	-	-
Other current assets	10	1,653,470	1,356,076
Total Current Assets		2,252,506	7,072,717
NON-CURRENT ASSETS			
Right-of-use asset	6	15,449	38,624
Investment property	7	7,130,829	7,200,000
Property, plant and equipment	8	16,516	23,728
Intangible assets	9	-	-
Other non-current assets	10	7,750,000	4,115,090
Total Non-Current Assets		14,912,794	11,377,441
Total Assets		17,165,300	18,450,158
CURRENT LIABILITIES			
Trade and other payables	11	182,712	132,086
Lease liabilities	6	16,082	39,873
Employee entitlements		110,921	123,743
Total Current Liabilities		309,715	295,702
Total Liabilities		309,715	295,702
NET ASSETS		16,855,585	18,154,456
EQUITY			
Issued capital		93,165,187	93,165,187
Reserves		70,364	127,989
Accumulated losses		(76,379,966)	(75,138,720)
TOTAL EQUITY		16,855,585	18,154,456

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

AUSCANN GROUP HOLDINGS LTD

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CONSOLIDATED STATEMENT OF CHANGES IN
EQUITY FOR THE HALF-YEAR ENDED 31 DECEMBER 2022

	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)
Transactions With Owners In Their Capacity As Owners				
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
	Issued Capital \$	Share- Based Payment Reserve \$	Accumulated Losses \$	Total \$
Balance at 1 July 2022	93,165,187	127,989	(75,138,720)	18,154,456
Loss after income tax for the period	-	-	(1,311,310)	(1,311,310)
Other comprehensive income for the period, net of tax	-	-	-	-
	-	-	(1,311,310)	(1,311,310)
Transactions With Owners In Their Capacity As Owners				
Share based payments	-	12,439	-	12,439
Expired / lapsed options / performance rights	-	(70,064)	70,064	-
Balance at 31 December 2022	93,165,187	70,364	(76,379,966)	16,855,585

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

AUSCANN GROUP HOLDINGS LTD

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**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2022**

	2022 \$	2021 \$
CASH FLOW FROM OPERATING ACTIVITIES		
Interest received	3,427	19,600
Government grants and incentives	24,600	-
Receipts from customers	234,733	26,019
Rental income	-	79,166
Refunds from suppliers	-	49,030
Payments to suppliers and employees	(1,604,408)	(2,430,750)
Net Cash Used In Operating Activities	(1,341,648)	(2,256,936)
CASH FLOW FROM INVESTING ACTIVITIES		
Payments for loans to European Cannabis Corporation	(3,750,000)	-
Net Cash Used In Investing Activities	(3,750,000)	-
CASH FLOW FROM FINANCING ACTIVITIES		
Repayment of lease liabilities	(25,957)	(23,700)
Net Cash Used In Financing Activities	(25,957)	(23,700)
Net Decrease in Cash and Cash Equivalents	(5,117,605)	(2,280,636)
Cash and cash equivalents at the beginning of the period	5,716,641	13,679,923
Cash and Cash Equivalents at the End of the Period	599,036	11,399,287

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

AUSCANN GROUP HOLDINGS LTD

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NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2022

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 2022.

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 2023.

(a) Basis Of Preparation

These general purpose financial statements for the interim half-year reporting period ended 31 December 2022 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 2022 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.

(d) Going Concern Basis

The Directors believe it is appropriate to prepare the consolidated financial statements on a going concern basis, which contemplates continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business.

The consolidated entity made a loss of \$1,311,310 from continuing operations and had net cash outflows from operating activities of \$1,341,648. At 31 December 2022, the Group had cash and cash equivalents of \$599,036.

In August 2022, the consolidated entity provided \$3,750,000 to European Cannabis Corporation Limited ('EuroCann') as part of its secured loan facility.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2022**

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Going Concern Basis (continued)

The consolidated entity requires funding within the next twelve months to meet its ongoing administrative expenses, any core research and development activities and for any new business opportunities that the consolidated entity may pursue. The Directors note the significant reduction in operating expenditure for the 2023 financial year and based on current activities expect expenditure to further reduce for the 2024 financial year.

The Directors believe that the consolidated entity will be able to secure sufficient funding to meet the requirements to continue as a going concern, due to its intention to sell its investment property under a conditional contract within the next twelve months, which creates uncertainty. As at the date of this report the Company, after receiving multiple offers on the property, have signed a contract for sale of the property and the Directors are confident this contract will complete.

The Directors consider the going concern basis of preparation to be appropriate based on its forecast cash flows for the next twelve months and that the consolidated entity will be in a position to continue to meet its minimum administrative and research and development expenditures for at least twelve months from the date of this report.

If further funds are not able to be raised or realised, then it may be necessary for the consolidated entity to reduce discretionary administrative expenditure.

The ability of the consolidated entity to achieve its forecast cash flows, particularly the sale of its investment property, represents a material uncertainty that may cast significant doubt about whether the consolidated entity can continue as a going concern, in which case it may not be able to realise its assets and extinguish its liabilities in the normal course of business and at the stated amounts in the financial statements.

NOTE 2: SEGMENT DISCLOSURES

During the half-year period, 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.

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.

AUSCANN GROUP HOLDINGS LTD

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2022

NOTE 2: SEGMENT DISCLOSURES (CONTINUED)

Half-Year Ended 31 December 2022 Consolidated

	Corporate \$	Medicinal Cannabis Research and Development \$	Discontinued Operations \$	Total \$
Revenue				
Sales	-	-	-	-
Less: Cost of goods sold	-	(20,438)	-	(20,438)
Net Sales Income from External Customers	-	(20,438)	-	(20,438)
Government grants	-	24,600	-	24,600
Rental income	-	190,289	-	190,289
Interest received	312,159	-	-	312,159
Total Revenue	312,159	194,451	-	506,610
Expenses				
Employee benefits expense	-	457,853	-	457,853
Share based payment expense - employees	12,439	-	-	12,439
Consulting fees	-	130,367	-	130,367
Research and development (direct expenses)	-	283,101	-	283,101
Depreciation and amortisation	3,336	96,222	-	99,558
Corporate, administration and other expenses	157	834,445	-	834,602
Total Expenses	15,932	1,801,988	-	1,817,920
Income (Loss) Before Income Tax	296,227	(1,607,537)	-	(1,311,310)
Income tax (expense)	-	-	-	-
Income (Loss) After Income Tax	296,227	(1,607,537)	-	(1,311,310)
As at 31 December 2022				
Assets				
Segment assets	5,314,628	11,850,672	-	17,165,300
Total Assets	5,314,628	11,850,672	-	17,165,300
Liabilities				
Segment liabilities	-	309,175	-	309,175
Total Liabilities	-	309,175	-	309,175

AUSCANN GROUP HOLDINGS LTD

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2022

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	-	-	56,860
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 2022

NOTE 3: INCOME & EXPENSES

December 2022 December 2021
\$ \$

Expenses

Total expenses include the following specific expenses:

(i) Employee Benefits

Employee benefits expense	457,853	984,658
Performance shares/rights	12,439	52,155
Share options	-	4,705
	<u>470,292</u>	<u>1,041,518</u>

(ii) Consulting Fees

Consulting fees- other	-	40,000
Consulting fees- directors	130,367	61,898
	<u>130,367</u>	<u>101,898</u>

(iii) Research and Development (Direct Costs)

Raw materials	43,375	46,981
Contract manufacturing R&D	8,734	277,082
Consultants – R&D	83,222	271,363
Analytics	44,630	153,518
Site costs	763	52,627
Pharmaceutical development	102,377	136,065
Other	-	24,852
	<u>283,101</u>	<u>962,487</u>

(iv) Depreciation and Amortisation

Right-of-use asset	23,175	23,174
Property, plant and equipment	7,212	49,238
Investment property	69,171	70,945
Intangible assets (Note 9)	-	789,685
	<u>99,558</u>	<u>933,042</u>

(v) Other Expenses

Legal and professional fees	133,667	130,315
Travel and accommodation	48,380	10,103
Licenses and permits	-	38,036
Marketing	38,065	43,983
Other	305,481	90,021
	<u>525,593</u>	<u>312,458</u>

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NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2022

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). These receivable amounts have been disclosed as deferred considerations.

The USD \$1,000,000 is currently in dispute and has been fully provided for with an impairment charge of \$1,415,429. Refer to Note 10 for further details. Since the financial year ended 30 June 2022, there were no indicators which would materially change the impairment charge.

NOTE 5: INVENTORIES

	December 2022	June 2022
	\$	\$
Raw materials	2,772,723	2,772,723
Finished goods	4,000	4,000
Less: Provision for stock obsolescence	(2,776,723)	(2,776,723)
	-	-

Since the financial year ended 30 June 2022, there were no indicators which would materially change the provision for stock obsolescence.

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

	December 2022	June 2022
	\$	\$
Right-of-Use Asset		
Land and buildings – right-of-use	92,697	92,697
Less: Accumulated depreciation	(77,248)	(54,073)
	15,449	38,624
Lease Liabilities		
Current lease liabilities	16,082	39,873
Non-current lease liabilities	-	-
	16,082	39,873

On 22 April 2021, the Company's subsidiary, CannPal, entered into a lease for 2 years. The right-of-use asset and the lease liability relating to this lease has been recognised and reflected in the right-of-use asset and lease liability balances at 31 December 2022.

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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2022**

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 as follows:

- *Term of lease:* 5 years plus two extension options of 5 years and 5 years;
- *Permitted use:* Laboratory, chemistry, development, manufacture, supply and cultivation;
- *Rent:* \$475,000 p.a. ex GST (subject to CPI increases and rent reviews);
- *Incentive:* First 6 months' rent free;
- *Outgoings:* SCI responsible for operating expenses related to the facility;
- *Right of first refusal:* SCI has first right to purchase the facility if AusCann proposes to sell; and
- *Service agreement:* AusCann has the right to negotiate a service level agreement allowing for SCI to provide AusCann with research and analytical services in the research and development facility.

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, based on the amount which was previously classified as land and buildings which was part of the Company's property, plant and equipment (see Note 8).

In line with expected valuation cycles, the Company obtained a full valuation of the investment property prior to 30 June 2022. The Company recognise an impairment loss of \$3,854,973 as a result of the decline in value of the property for the year ended 30 June 2022.

	December 2022	June 2022
	\$	\$
Amounts Recorded at Cost		
Investment property	11,349,505	11,349,505
Less: Accumulated depreciation and impairment	(4,218,676)	(4,149,505)
	<u>7,130,829</u>	<u>7,200,000</u>
Changes to the Carrying Amounts		
Carrying amount at beginning of year	7,200,000	11,111,439
Additions to investment property	-	84,269
Depreciation charged during the year	(69,171)	(140,735)
Impairment in value	-	(3,854,973)
Carrying amount at 30 June	<u>7,130,829</u>	<u>7,200,000</u>
Future Minimum Lease Payments Due from Tenant		
Within 1 year	475,000	475,000
1 to 2 years	475,000	475,000
2 to 3 years	475,000	475,000
3 to 4 years	158,333	395,833
4 to 5 years	-	-
	<u>1,583,333</u>	<u>1,820,833</u>

AUSCANN GROUP HOLDINGS LTD

ABN 72 008 095 207

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2022**

NOTE 8: PROPERTY, PLANT AND EQUIPMENT	December 2022	June 2022
	\$	\$
Computer equipment at cost	40,730	40,730
Less: Accumulated depreciation	(36,882)	(37,315)
	<u>3,848</u>	<u>3,415</u>
Furniture and fittings at cost	90,087	90,087
Less: Accumulated depreciation	(78,918)	(73,934)
	<u>11,169</u>	<u>16,153</u>
Plant and equipment at cost	916,554	916,554
Less: Accumulated depreciation	(155,988)	(153,327)
Less: Impairment	(759,067)	(759,067)
	<u>1,499</u>	<u>4,160</u>
Total	<u>16,516</u>	<u>23,728</u>

NOTE 9: INTANGIBLE ASSETS	December 2022	June 2022
	\$	\$
Acquired intellectual property	17,492,283	17,492,283
Less: Accumulated amortisation	(2,033,708)	(2,033,708)
Less: Impairment	(15,458,575)	(15,458,575)
Total	<u>-</u>	<u>-</u>

Since the financial year ended 30 June 2022, there were no indicators which would materially change the valuation of the acquired intellectual property.

NOTE 10: OTHER ASSETS	December 2022	June 2022
	\$	\$
Current		
Accounts receivable	53,430	26,623
Accrued income	110,834	182,084
GST receivable	25,083	(3,456)
Accrued interest	308,733	-
Prepayments	113,390	108,825
Deferred consideration receivable within 1 year (i)	1,415,429	1,415,429
Provision for impairment on deferred consideration for sale of DayaCann ⁽ⁱ⁾	(1,415,429)	(1,415,429)
Loan to European Cannabis Corporation (ii)	1,000,000	1,000,000
Short term deposits	42,000	42,000
	<u>1,653,470</u>	<u>1,356,076</u>
Non-Current		
Prepayments	-	115,090
Loan to European Cannabis Corporation (ii)	7,750,000	4,000,000
	<u>7,750,000</u>	<u>4,115,090</u>
	<u>9,403,470</u>	<u>5,471,166</u>
(i) Movement in provision for expected credit losses		
Balance at beginning of the year	1,415,429	-
Provision for expected credit losses during the period	-	1,415,429
Balance at the end of the period	<u>1,415,429</u>	<u>1,415,429</u>

AUSCANN GROUP HOLDINGS LTD

ABN 72 008 095 207

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2022

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 2022. 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.

(ii) Loan to European Cannabis Corporation

On 29 April 2022, the Group granted a loan to European Cannabis Corporation (ECC) for a total amount of \$5,000,000 for the purpose of capital expenditure for the construction of additional greenhouses, expansion of manufacturing capabilities, and exclusivity for the commercialisation of medicinal cannabis products for the Australian and New Zealand markets. The loan is subject to interest of 7.5% per year.

On 29 August 2022, the Group increased the loan facility provided to ECC by an additional \$3,750,000.

The loan is to be repaid at \$1,000,000 on each of the first anniversary and the second anniversary of the date of the loan and the balance owing to be paid on the third anniversary of the date of the loan.

The loan is secured by a general security deed by which ECC grants security interest over all its assets and all the shares it holds in HAPA Pharm B.V. and a share pledge agreement wherein HAPA Pharm B.V. grants a security interest over all the shares it holds in HAPA Pharm GmbH, from time to time, together with a guarantee and indemnity in favour of the Group in respect of the amount owing by the ECC.

NOTE 11: TRADE AND OTHER PAYABLES

	December 2022	June 2022
	\$	\$
Trade payables and accrued expenses	144,893	113,151
PAYG and superannuation payable	37,819	18,935
	<u>182,712</u>	<u>132,086</u>

NOTE 12: SHARE-BASED PAYMENTS

Share-based payments of key management and other personnel are disclosed in Note 18 of the annual financial report for the year ended 30 June 2022.

During the half year ended 31 December 2022, options exercisable at 15.38 cents to Dr Margaret Curtis expired on 9 November 2022 without exercise. The Group has transferred the fair value of the options amounting to \$19,221 from Reserves to Accumulated losses.

During the half year ended 31 December 2022, the Group recognised share-based payment expense totalling \$12,349 for the vested portion relating to the following performance rights:

- \$7,734 for 2,000,000 performance rights issued to Mr Leyton Mills; and
- \$4,705 for 500,000 performance rights issued to Dr Margaret Curtis.

On 13 September 2022, Mr Leyton Mills resigned from the Group. The fair value of his performance rights recognised amounting to \$50,843 was transferred from Reserves to Accumulated losses as a result of his resignation.

AUSCANN GROUP HOLDINGS LTD

ABN 72 008 095 207

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2022

NOTE 13: COMMITMENTS

Commitment under Neuvis Manufacturing Development Agreement:

	December 2022	June 2022
	\$	\$
Committed at the reporting date:		
Within one year	-	42,544
Between one and five years	-	-
Total commitment	-	42,544
Less: Future finance charges	-	-
Net commitment recognised	-	42,544

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, which was fully paid as at 31 December 2022.

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. 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 full amount due from Telor. (refer to note 10).

Other than the above, the Group is not aware of any other contingent liabilities as at 31 December 2022.

NOTE 15: EVENTS SUBSEQUENT TO REPORTING DATE

On 3 January 2023, Mrs Krista Bates resigned from her position as Non-executive Director of the Company to pursue other corporate interests, following the completion of a 3 year term with AusCann.


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 2022 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 2023

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INDEPENDENT AUDITOR'S REVIEW REPORT

TO THE MEMBERS OF AUSCANN GROUP HOLDINGS LIMITED

Report on the Half-Year Financial Report

Qualified 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 2022, 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 2022, or during the half year.

Based on our review, which is not an audit and except for the effects of the matter described in the Basis for Qualified Conclusion section of our report, 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 2022 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 Qualified 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.

At reporting date the consolidated entity has recognised a financial asset totalling \$8,750,000 which was advanced to European Cannabis Corporation Limited and \$308,733 of accrued interest relating to this asset, in the statement of financial position. Further details including the current and non-current portion of the advance are detailed in Note 10 of the financial report. A limitation of scope exists because we were unable to confirm the recoverability of the financial asset and the accrued interest totalling \$9,058,733 in full or partially, or determine any adjustments that may have been required to this amount.

Material Uncertainty Related to Going Concern

Without qualifying our conclusion, we draw attention to Note 1 in the financial report in which indicates that the consolidated entity incurred a net loss of \$(1,311,310) (2021: \$4,153,390) during the half year ended 31 December 2022 and had negative operating cashflow of \$(1,341,648) (2021: \$2,256,936). These conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty which may cast significant doubt about the consolidated entity's ability to continue as a going concern and therefore, the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business, and at the amounts stated in the financial report.

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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.

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.

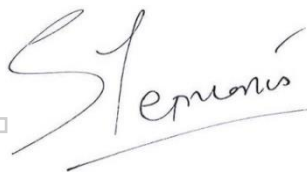
Auditor's Responsibilities for the Review of the Financial Report

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 2022 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 2023
WEST PERTH,
WESTERN AUSTRALIA