CANN GROUP LIMITED
and its controlled entities

ABN 25 603 949 739

ANNUAL FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2015

Corporate Information

These are the first full financial statements of Cann Group Ltd (the **company**) and its 100% owned subsidiaries, including Cannproducts Pty Ltd (incorporated and domiciled in Victoria, Australia), Cannoperations Pty Ltd (incorporated and domiciled in Victoria, Australia), Anslinger Holdings Pty Ltd (incorporated and domiciled in Victoria, Australia), Cannlabs Australia Pty Ltd (incorporated and domiciled in Victoria, Australia) and Cann Investments Pty Ltd (incorporated and domiciled in Victoria, Australia) (together, the **Group**). These financial statements are for the period from the date of the company's incorporation at 30 January 2015 to 30 June 2015. Unless otherwise stated, all amounts are presented in $AUD.

A description of the group's operations and of its principal activities is included in the review of operations and activities in the attaching directors' report.

Directors

Mr Allan McCallum (Chairman) (appointed 30 January 2015)

Mr Philip Jacobsen (Deputy Chairman) (appointed 30 January 2015)

Mr Douglas Rathbone (appointed 16 March 2015)

Mr Alberto Mariani (appointed 30 January 2015)

Registered and Principal Office

Suite 203

11 Spring Street

Chatswood NSW 2067

Contents

DIRECTORS' REPORT

Your directors present their report on the group for the financial period ended 30 June 2015.

INFORMATION ON DIRECTORS

The names and details of the directors in office during the period and until the date of this report are as follows. Directors have been in office for this entire period unless otherwise stated.

The names of the directors in office at any time during or since the end of the year and their qualifications are as follows:

Allan McCallum, Dip. Ag Science, FAICD (Chairman) (appointed 30 January 2015)

An experienced public company director who has strong ethics, proven leadership capabilities and extensive experience in strategy development and implementation and mergers and acquisitions. Allan is a former Director of Incitec Pivot Ltd (ASX IPL), the current Chair of Tassal Group Ltd (ASX TGR) Australia's largest producer of Atlantic salmon and a Director of Medical Developments International Ltd (ASX MVP), a pharmaceutical and device manufacturer, marketing nationally and internationally.

Special Responsibilities - Member – Audit and Risk Committee

Interest in Shares and Performance Rights
800,000 Ordinary Shares
500,000 Performance Rights Class A
250,000 Performance Rights Class B

Philip Robert Nicholas Jacobsen, CPA (Deputy Chairman) (appointed 30 January 2015)

An experienced public company director, he co-founded Premier Artists in 1975 and The Frontier Touring Company in 1979. He serves as a director of Liberation Music, Premier Artists, The Harbour Agency, Ivy League Records and Jacobsen Bloodstock. Former Chair of MCM Entertainment Group, Philip brings to the Board a 50 plus year history of applying solid fiscal accounting perspectives to an emerging business model in a constantly changing, high demand market place.

Special Responsibilities - Chairman – Audit and Risk Committee

Interest in Shares and Performance Rights
375,000 Ordinary Shares
250,000 Performance Rights Class A
125,000 Performance Rights Class B

Douglas John Rathbone, AM, FATSE, FI ChemE, ARMIT B Comm, TTC (appointed 16 March 2015)

An experienced public company director, he is the former Managing Director and CEO of Nufarm Limited – an ASX 200 listed company and is a former Board member of the FERNZ Corporation and the CSIRO. He is a member of the RABO Bank Advisory Board, an Honorary Life Governor of the Royal Children's Hospital and a former Director of the Burnett Centre for Medical Research. Doug brings to the Board experienced management and corporate governance skills together with a passion to grow the business having successfully transformed Nufarm to become one of the world's leading crop protection and seed companies with an extensive global footprint.

Special Responsibilities - Member – Audit and Risk Committee

Interest in Shares and Performance Rights
50,000 Ordinary Shares
20,000 Performance Rights Class A
20,000 Performance Rights Class B

Alberto Mariani, B.Sc., Dip.Ed., B.Ed. (Hons), MAPS, MISH (appointed 30 January 2015)

An experienced Company Director, he is a former professional footballer at the highest level in Australia (NSL) with subsequent extensive coaching engagements. He is an accredited, registered and practicing psychologist, combining his diverse professional activities with a private practice in psychology. He currently sits on: the Board of Club Marconi Ltd, a registered, licensed club in NSW. He also serves on its Audit and Finance Committee; the FNSW Premier Competitions Standing Committee; the Board of the Australian Society of Hypnosis Inc. (NSW) (where he has served as the President for the last three years) and, the Federal Council and Board of Education of the Australian Society of Hypnosis Ltd.

Special Responsibilities - Member – Audit and Risk Committee

Interest in Shares and Performance Rights
250,000 Ordinary Shares
160,000 Performance Rights Class A
90,000 Performance Rights Class B

Directors have been in office since the start of the period to the date of this report unless otherwise stated.

COMPANY SECRETARIES

Richard Baker, M.Commrcl Law, B.Ec., CPA (appointed 27 May 2015)

A senior experienced Financial Controller and Company Secretary, with extensive ASX experience, in terms of governance, capital raisings and reporting including implementing internal controls, accounting and ERP systems in established and start-up enterprises. He has had public practice experience in business services, taxation and audit to a diverse range of clients involved in FMCG, manufacturing, professional services and transport and gained a variety of experience as Financial Controller with previous employers including mineral exploration, import and distribution, FMCG and professional consulting.

Alberto Mariani, B.Sc., Dip.Ed., B.Ed. (Hons), MAPS, MISH (appointed 30 January 2015)

An experienced Company Director, he is a former professional footballer at the highest level in Australia (NSL) with subsequent extensive coaching engagements. He is an accredited, registered and practicing psychologist, combining his diverse professional activities with a private practice in psychology. He currently sits on: the Board of Club Marconi Ltd, a registered, licensed club in NSW. He also serves on its Audit and Finance Committee; the FNSW Premier Competitions Standing Committee; the Board of the Australian Society of Hypnosis Inc. (NSW) (where he has served as the President for the last three years) and, the Federal Council and Board of Education of the Australian Society of Hypnosis Ltd.

DIVIDENDS

No dividends have been paid or have been recommended during the period.

PRINCIPAL ACTIVITIES

The principal activities of the group during the period consisted of developing a manufacturing and a technology structure to import, cultivate and process cannabinoid based products for markets where Cannabis is legalised for medicinal and/or recreational uses.

No significant change in the nature of these activities occurred during the period.

FINANCIAL REPORTING PERIOD

This Annual Report is the first Annual Report of the consolidated group and covers the period 30 January 2015 to 30 June 2015.

OPERATING RESULTS FOR THE PERIOD

The group made an operating loss of $1,740,186 for the period ended 30 June 2015.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Capital raising

During the period the Company issued an Information Memorandum for a private capital raising ("the Offer") up to $1,000,000 at an offer price of $1.00 per share with capacity to accept oversubscriptions of $500,000 from sophisticated and professional investors under section 708 of the *Corporations Act.* The Offer closed on 22 May 2015 and raised $1,025,000.

There were no other significant changes in the state of affairs of the group during the year.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

Acquisition of Cann Global Inc

Cann Global Inc (Nevada) is incorporated in the State of Nevada in the United States of America and is in the process of becoming a wholly-owned subsidiary of Cann Group Limited. The process was not finalised by 30 June 2015 however the process is expected to be completed in the second half of the 2015 calendar year.

Other than matters referred to elsewhere in this report and above, further information as to likely developments in the operations of the entity and the expected results of operations have not been included in this report because the directors believe it would be likely to result in unreasonable prejudice to the entity.

ENVIRONMENTAL REGULATION AND PERFORMANCE

The group's operations are not subject to any particular environmental regulations.

DIRECTORS' MEETINGS

The number of meetings of the Company's Board of Directors held during the period ended 30 June 2015 and the number of meetings attended by each Director were:

Name	**Number eligible to attend**	**Number attended**
Allan McCallum	2	2
Philip Jacobsen	2	1
Douglas Rathbone	1	1
Alberto Mariani	2	2

There were no meetings of the Audit and Risk Committee during the period.

OPTIONS

There are presently no share options on issue.

PERFORMANCE RIGHTS

The Company has issued 4,500,000 Performance Rights at $0.0001 per Right comprising 2,750,000 Class A Performance Rights and 1,750,000 Class B Performance Rights of which:

- 2,417,500 Class A Performance Rights and 1,417,500 Class B Performance Rights have been issued to Directors and Key Management Personnel of the Company; and
- 332,500 Class A Performance Rights and 332,500 Class B Performance Rights have been issued to non-related party consultants and advisors in consideration for various advisory services.

The Performance Rights have the following milestones attached to them:

(i) **Class A Performance Rights**: if the Company issues further Shares in addition to the New Shares at $1.50 per Share or higher (subject to any adjustments as set out below in (iii)); and

(ii) **Class B Performance Rights**: if the Company applies to be admitted to the Official List of the ASX or a trade sale of the underlying business of the Company or the Company occurs.

(iii) If, at any time, the issued capital of the Company is reorganised (including consolidation, subdivision, reduction or return), all rights of a holder of a Performance Right (including the Vesting Conditions) are to be changed in a manner consistent with the *Corporations Act* and the ASX Listing Rules at the time of the reorganisation.

The Performance Rights were issued for $0.0001 each and no consideration will be payable upon the vesting of the Performance Rights.

Upon satisfaction of the relevant Performance Rights vesting, each Performance Right will, at the election of the holder, vest and convert as follows:

(i) each Class A Performance Right converts into one Share; and

(ii) each Class B Performance Right converts into one Share.

Based on the above, the performance rights reserve has been calculated as at 30 June 2015 as follows:

Class	Number of rights	Grant Date	Fair value (cents)	Vested	Total in reserve $
A	2,750,000	31 January 2015	19.18	50%	263,698
B	1,750,000	31 January 2015	19.18	50%	167,807
	4,500,000				431,505

Grant date: this was the date that all participants to the Performance Rights had a shared understanding of the terms and conditions of the arrangement.

Fair value: this was determined with reference to the prevailing seed capital price at that date, being the value attributed to shares issued in consideration the reimbursement of expenses borne on behalf of the Group by related parties.

% vested: for both performance milestones described above, the Directors have assessed a 50% probability.

If the Milestone attaching to a Performance Right has not been satisfied in the time periods set out below, it will automatically lapse:

(i) Class A Performance Rights: 3 years from 22 May 2015;

(ii) Class B Performance Rights: 4 years from 22 May 2015;

otherwise, any Performance Right that has not been converted into a Share on or before the date of admission of the Company to the Official List of the ASX will automatically lapse.

INDEMNIFYING OFFICERS OR AUDITOR

No indemnities have been given or insurance premiums paid, during or since the end of the period, for any person who is or has been an officer or auditor of the group.

PROCEEDINGS ON BEHALF OF THE GROUP

No person has applied for leave of court to bring proceedings on behalf of the group or intervene in any proceedings to which the group is a party for the purpose of taking responsibility on behalf of the group for all or any part of those proceedings.

There were no proceedings during the period.

EVENTS AFTER THE END OF THE REPORTING PERIOD

Issue of Shares

On 14 August 2015 the Company issued 150,000 Shares at a price of $1.00 per share on the same terms and conditions as those shares issued pursuant to the abovementioned Information Memorandum.

Apart from the above Issue of Shares there were no matters or circumstances have arisen since the end of the period which significantly affected or may significantly affect the operation of the group, the results of those operations, or the state of affairs of the group in future financial years.

Entry into Lease of premises

On 4 September 2015 Cannoperations Pty Ltd, a wholly-owned subsidiary of Cann Group Limited, entered into a lease for premises for a period of 3 years and 6 months with two further options of 3 years each.

Signed in accordance with a resolution of the Board of Directors:

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Allan McCallum
CHAIRMAN
Date: 22 September 2015

Statement of Profit or Loss and other Comprehensive Income

FOR THE PERIOD ENDED 30 JUNE 2015

	Note	2015 $
Revenue	3	**5,726**
Administration and corporate costs		**(380,958)**
Finance costs		**(5,231)**
Occupancy expenses		**(15,303)**
Operational preparation costs		**(45,693)**
Professional fees		**(13,025)**
Performance rights expense		**(381,163)**
Share based payments		**(519,634)**
Research and development		**(182,247)**
Travel expenses		**(173,299)**
Other expenses		**(29,359)**
Loss before income tax		**(1,740,186)**
Income tax expense	4	**-**
Loss attributable to members of the company		**(1,740,186)**
Other comprehensive income		**-**
Total comprehensive loss attributable to members of the company		**(1,740,186)**

The accompanying notes form part of these statements.

Statement of Financial Position

AS AT 30 JUNE 2015

	Note	2015 $
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents		**450,824**
Trade receivables and other assets	7	**103,961**
TOTAL CURRENT ASSETS		**554,785**
NON-CURRENT ASSETS		
Plant and equipment	8	**171,369**
TOTAL NON-CURRENT ASSETS		**171,369**
TOTAL ASSETS		**726,154**
LIABILITIES		
CURRENT LIABILITIES		
Unsecured trade and other payables	9	**77,829**
TOTAL CURRENT LIABILITIES		**77,829**
TOTAL LIABILITIES		**77,829**
NET ASSETS		**648,325**
EQUITY		
Ordinary share capital	11	**1,957,006**
Performance rights reserve	12	**431,505**
Accumulated losses		**(1,740,186)**
TOTAL EQUITY		**648,325**

The accompanying notes form part of these statements

Statement of Changes in Equity

FOR THE PERIOD ENDED 30 JUNE 2015

	Ordinary shares	Performance Rights reserve	Accumulated losses	Total equity
	$	$	$	$
Balance at 30 January 2015	**-**	**-**	**-**	**-**
Issue of shares	1,992,006	-	-	1,992,006
Costs of issuing shares	(35,000)			(35,000)
Issue or performance rights (net of costs)	-	431,505	-	431,505
Comprehensive loss for the period ended 30 June 2015	-	-	(1,740,186)	(1,740,186)
Balance at 30 June 2015	**1,957,006**	**431,505**	**(1,740,186)**	**648,325**

The accompanying notes form part of these statements

Statement of Cash Flows

FOR THE PERIOD ENDED 30 JUNE 2015

	Note	2015 $
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers		**3,357**
Payments to suppliers and employees		**(272,231)**
Interest receipted		**1,067**
Net cash flows provided by/(used in) operating activities	16	**(267,807)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property, plant and equipment		**(171,369)**
Net cash flows used in investing activities		**(171,369)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issues of shares		**925,000**
Costs of issuing shares		**(35,000)**
Net cash flows provided by financing activities		**890,000**
Net increase/ (decrease) in cash held		**450,824**
Cash and cash equivalents at the beginning of the period		**-**
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		**450,824**

The accompanying notes form part of these statements

Notes to the financial statements

1. CORPORATE INFORMATION

These are the first full financial statements of Cann Group Ltd (the **company**) and its 100% owned subsidiaries, including Cannproducts Pty Ltd (incorporated and domiciled in Victoria, Australia), Cannoperations Pty Ltd (incorporated and domiciled in Victoria, Australia), Anslinger Holdings Pty Ltd (incorporated and domiciled in Victoria, Australia), Cannlabs Australia Pty Ltd (incorporated and domiciled in Victoria, Australia) and Cann Investments Pty Ltd (incorporated and domiciled in Victoria, Australia) (together, the **Group**). These financial statements are for the period from the date of the company's incorporation at 30 January 2015 to 30 June 2015. Unless otherwise stated, all amounts are presented in $AUD, which is the functional and presentation currency of all entities in the Group.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of accounting

The financial statements are general purpose financial statements that have been prepared in accordance with Australian Accounting Standards, including Australian Accounting Interpretations, other authoritative announcements of the Australian Accounting Standards Board ("AASB") and the *Corporations Act 2001* as appropriate for for-profit oriented entities.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in financial statements containing relevant and reliable information about transactions, events and conditions. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards. Material accounting policies adopted in the preparation of these financial statements are presented below. They have been consistently applied unless otherwise stated.

The financial statements have been prepared on an accruals basis and are based on historical costs modified, where applicable, by the measurement of fair value of selected non-current assets, financial assets and financial liabilities.

The amounts presented in the financial statements have been rounded to the nearest dollar.

These financial statements have been prepared on a going concern basis, notwithstanding the fact that for the period ended 30 June 2015, the Group generated a loss after tax of $1,740,186 and incurred net cash outflows from operations of $267,807. As at 30 June 2015 the Group had available cash reserves of $450,824. Net investment outflows for the year attributable to the construction of its Modular Plant Growth Research Facility were $171,369.

For the 12 months from the date of this report, the Directors have determined that the Group is a going concern based upon a cash flow budget prepared by management, which includes the following assumptions:

- revenue derived from sales of consumer products and cannabinoid oil;
- future capital raising activities; and
- control of costs, as and where appropriate. In considering this, the Directors note that the Group, with the exception of its lease which was signed on 4 September 2015 and requires annual payments of $102,300 ($110,000 after 5 March 2016), have no committed costs that cannot be varied according to levels of working capital available to the Group.

For these reasons, the Directors believe that the assumption of a going concern basis in the preparation of this financial report is appropriate. The financial report does not include any adjustments in relation to the recoverability or classification of recorded assets, nor the amounts or classification of liabilities that might be necessary should the Company not be able to continue as a going concern.

Notes to the financial statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Principles of Consolidation

These consolidated financial statements comprise the financial statements of the company and its controlled entities throughout reporting period. Controlled entities refers to entities over which the group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of the potential voting rights that are currently exercisable or convertible are considered when assessing whether the group controls another entity.

The financial statements of the controlled entities used in the preparation of the consolidated financial statements are prepared for the same reporting date as the company. Consistent accounting policies are applied to like transactions and events in similar circumstances.

All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full.

(c) Income Tax

The income tax expense (income) for the period comprises current income tax expense (income) and deferred tax expense (income).

Current income tax expense charged to profit or loss is the tax payable on taxable income. Current tax liabilities (assets) are therefore measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well as unused tax losses.

Except for business combinations, no deferred income tax is recognised from the initial recognition of an asset or liability where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled and their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

(d) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable after taking into account any trade discounts and volume rebates allowed and is stated net of goods and services tax or value-added tax charges.

Revenue from credits received from the ATO for research and development activities is recognised when it can be reliably measured and the probability of meeting the criteria for receipt of these credits is probable.

Revenue from the rendering of services is recognised at the point of delivery of those services as they are earned under contractual agreement.

Notes to the financial statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(e) Cash and cash equivalents

Cash in the Statement of Financial Position comprise cash at bank and in hand.

For the purposes of the Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

(f) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO).

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the ATO is included with other receivables or payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to, the ATO are presented as operating cash flows included in receipts from customers or payments to suppliers.

(h) Trade and other payables

Trade payables and other payables are carried at amortised cost and represent liabilities for goods and services provided to the group prior to the end of the financial year that are unpaid and arise when the group becomes obliged to make future payments in respect of the purchase of these goods and services.

(i) Trade and other receivables

Trade and other receivables include amounts due from customers for goods sold and services performed in the ordinary course of business. Receivables expected to be collected within 12 months of the end of the reporting period are classified as current assets. All other receivables are classified as non-current assets.

Trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment.

(j) Financial Instruments

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument. For financial assets, this is equivalent to the date that the group commits itself to either purchase or sell the asset (i.e. trade date accounting is adopted).

Classification and subsequent measurement

Financial instruments are subsequently measured at amortised cost using the effective interest method, or cost.

Amortised cost is calculated as the amount at which the financial asset or financial liability is measured at initial recognition less principal repayments and any reduction for impairment, and adjusted for any cumulative amortisation of the difference between that initial amount and the maturity amount calculated using the *effective interest method*.

Notes to the financial statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(j) Financial Instruments *(continued)*

The *effective interest method* is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that exactly discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying amount with a consequential recognition of an income or expense item in profit or loss.

When a financial liability, including redeemable preference shares, features an equity conversion feature, upon initial recognition it is measured at cost and accounted for as equity in the statement of financial position. Subsequent to initial recognition, this instrument is carried at cost. When such a liability is redeemed for cash consideration, the difference between the cash paid for the redemption of the liability and its historical cost is adjusted for in the profit and loss. When such a liability is converted into ordinary shares, the difference between the fair value of the shares granted and issued and its historical cost is also adjusted in the profit and loss.

Impairment

At each reporting date, the group's directors assess whether there is objective evidence that the financial instrument has been impaired. Impairment losses are recognised in the profit or loss.

(k) Plant and Equipment

Each class of plant and equipment is carried at cost less any accumulated depreciation and impairment losses.

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset's employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

The cost of plant and equipment constructed within the Group includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads.

Depreciation

The depreciable amount of all plant and equipment is depreciated on a diminishing value basis over the asset's useful life to the group commencing from the time the asset is held ready for use.

As at 30 June 2015, the Group's sole asset class, its Modular Plant Growth Research Facility had a depreciation rate of 15%.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the statement of comprehensive income.

Notes to the financial statements

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

(l) Impairment of Assets

At each reporting date, the group's directors review the carrying values of the group's tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less cost to sell and value in use, is compared to the assets carrying value. Any excess of the assets carrying value over its recoverable amount is expensed to the income statement.

(m) Share Based Payments

The Company reflects in its comprehensive income (or loss) and its financial position the effects of share-based payment transactions, including expenses associated with transactions in which shares are granted to related parties, key management personnel and employees. During the period the Company granted new ordinary shares pursuant to equity-settled share based payments for services and/or loans provided on an arm's-length basis by the founder, related parties and key management personnel, at values determined pursuant to AASB 2 for those services.
Fair value of the goods or services received, unless the fair value cannot be estimated reliably when the transaction is measured indirectly by reference to the fair value of the equity instruments granted. However,
AASB 2 acknowledges it is typically not possible to estimate reliably the fair value of services received. Consequently, the entity shall measure the fair value of the services received by reference to the fair value of the equity instruments granted. The fair value of the equity instruments shall be measured at grant date.

(n) Research and Development Tax Incentive

The Company does not recognise benefits from the research and development tax incentive as an asset as receipt of incentive payments is not regarded as probable. The Directors believe the probable is when the tax incentive is receipted in cash and also that it is reflected as income in the Statement of Profit and Loss and Other Comprehensive Income.

(o) Critical Accounting Estimates and Judgements

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

Key Judgement – determination of fair value of Share-Based Payments and Performance Rights

In determining the fair value of the Share-Based Payment the Directors measured the fair value of the services received by reference to the fair value of the equity instruments granted as at grant date of 31 January 2015 (refer Note 11: Ordinary Shares). The Performance Rights were valued using the fair value of the issue of shares immediately preceding the granting of the Performance Rights, in this instance being the fair value per share of the Share-Based Payments, applied by a factor expressed as a percentage of the probability of the Group achieving the required milestones for the Performance Rights to vest.

Key Judgement – determination of probability of achieving milestones for vesting of Performance Rights

In determining the probability of the Group achieving each of the respective milestones for each of Class A and Class B Performance Rights, which would permit vesting of the Performance Rights, the Directors took into account all developments of the Group since the granting of the Performance Rights including the raising of the minimum subscription pursuant to the Information Memorandum dated 14 April 2015 at an issue price of $1.00 per new share and operational, business and legal progress to 30 June 2015. It was determined as at 30 June 2015 that the Group had a fifty percent (50%) likelihood of achieving each of the respective the milestones that

Notes to the financial statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(o) Critical Accounting Estimates and Judgments *(continued)*

would result in the vesting of each class of the Performance Rights. This percentage was applied to the fair value of each class of the Performance Rights at grant date thereby resulting in the valuation of each class of Performance Rights as at 30 June 2015. The milestones for vesting of the Performance Rights are contained in Note 12 – Performance Rights.

Key Judgement – non-recognition of carry-forward tax losses

The balance of future income tax benefit arising from current year tax losses and timing differences has not been recognised as an asset because recovery is not regarded as probable. The future income tax benefit, which has not been recognised as an asset, will only be obtained if:

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

Refer Note 4: Income Tax Expense.

Key Judgement – non-recognition of research and development tax incentive benefits

The balance of research and development tax incentive arising from operations of the Company has not been recognised as an asset because receipt is not regarded as probable. The research and development tax incentive, which has not been recognised as an asset, will only be obtained if:

(i) the Company's activities fulfil the eligibility criteria of the research and development tax initiative and it is successful in registering for the research and development tax initiative;
(ii) the Company continues to comply with the conditions for registration of the research and development tax initiative imposed by law; and
(iii) no changes in tax legislation adversely affecting the Company realising the tax incentive from research and development.

Refer Note 2: Summary of Significant Accounting Policies.

Key Judgement – going concern basis of accounting

Refer Note 2: Summary of Significant Accounting Policies (a) Basis of Accounting.

Key Judgement – acquisition of corporate entities

The consolidated group is comprised of the ultimate company Cann Group Limited and its wholly-owned subsidiaries, whose assets and liabilities were acquired at historical cost and not fair value (refer Note 10: Controlled Entities).

Notes to the financial statements

3. REVENUE

	2015 $
Licencing fees	**4,659**
Other income	
Interest Received	**1,067**
	5,726

4. INCOME TAX EXPENSE

	2015 $
The prima-facie tax on profit from ordinary activities before income tax is reconciled to income tax as follows:	
Profit / (loss) before income tax	**(1,740,186)**
Prima-facie tax payable on profit / (loss) from ordinary activities before income tax at 30%	**(522,056)**
Add:	
Tax effect of:	
- Non-deductible expenses	**155,890**
	(366,166)
The Directors estimate that the potential deferred income tax assets not brought to account is	**(366,166)**
Tax benefits not recognised during the period	**366,166**
Income Tax Expense for the period	**-**

At the end of the reporting period, the group has tax losses of $366,166 that are available for offset against future taxable profits of the companies in which the losses arose, for which no deferred tax asset is recognised due to uncertainty of its recoverability. The use of these tax losses is subject to the agreement of the tax authorities and compliance with certain provision of the tax legislation of respective countries in which the companies operate.

5. KEY MANAGEMENT PERSONNEL

(a) Names and positions held of economic and parent entity key management in office at any time during the period are:

Key Management Person	Position
Mr Allan McCallum	Chairman
Mr Philip Jacobsen	Deputy Chairman
Mr Douglas Rathbone	Director
Mr Alberto Mariani	Director and Company Secretary
Mr Michael Murchison	Chief Executive Officer

Notes to the financial statements

5. KEY MANAGEMENT PERSONNEL *(continued)*

(b) Number of Shares held by Key Management Personnel

Name	Balance 30 January 2015	Received as equity-settled share based payment	Issued on exercise of Performance Rights	Net Change Other*	Balance 30 June 2015
Mr Allan McCallum	-	750,000	-	50,000	800,000
Mr Philip Jacobsen	-	375,000	-	-	375,000
Mr Douglas Rathbone	-	-	-	50,000	50,000
Mr Alberto Mariani	-	-	-	250,000	250,000
Mr Michael Murchison	-	3,875,000	-	(475,000)	3,400,000
Total	**-**	**5,000,000**	**-**	**(125,000)**	**4,875,000**

* Net Change Other refers to shares purchased or sold or otherwise transferred during the period.

(c) Number of Performance Rights Class A held by Key Management Personnel

Name	Balance 30 January 2015	Received as compensation	Net Change Other*	Balance 30 June 2015
Mr Allan McCallum	-	500,000	-	500,000
Mr Philip Jacobsen	-	250,000	-	250,000
Mr Douglas Rathbone	-	20,000	-	20,000
Mr Alberto Mariani	-	160,000	-	160,000
Mr Michael Murchison	-	1,487,500	-	1,487,500
Total	**-**	**2,417,500**	**-**	**2,417,500**

(d) Number of Performance Rights Class B held by Key Management Personnel

Name	Balance 30 January 2015	Received as compensation	Net Change Other*	Balance 30 June 2015
Mr Allan McCallum	-	250,000	-	250,000
Mr Philip Jacobsen	-	125,000	-	125,000
Mr Douglas Rathbone	-	20,000	-	20,000
Mr Alberto Mariani	-	90,000	-	90,000
Mr Michael Murchison	-	932,500	-	932,500
Total	**-**	**1,417,500**	**-**	**1,417,500**

(e) Remuneration paid to Key Management Personnel

	2015 **$**
Share based payments	**519,634**
Consulting fees	**140,000**
Vesting charge for Performance Rights	**367,738**
	1,027,372

Notes to the financial statements

6. AUDITORS' REMUNERATION

	2015
	$
Remuneration of the auditors of the group for:	
Auditing the financial statements – William Buck	10,000
	10,000

7. TRADE RECEIVABLES AND OTHER ASSETS

Current	
Trade receivables	1,300
Share Subscription receivables	100,000
	101,300
Reimbursements due from related parties	2,661
	103,961

8. PLANT AND EQUIPMENT

	2015	
	Modular Plant Growth Research Facility	Total
	$	$
Opening Balance	-	-
Additions	171,369	171,369
Closing Balance	171,369	171,369

Written Down Values $

As at 30 January 2015	-	-
As at 30 June 2015	171,369	171,369

The Modular Plant Growth Research Facility is still in construction phase and is not yet available for use. As at 30 June 2015 the Directors reviewed the overall progress Facility and determined that there were no indications of impairment relating to this asset.

Notes to the financial statements

9. UNSECURED TRADE AND OTHER PAYABLES

	2015
	$
Current	
Unsecured trade and other payables	**26,729**
Unsecured payables - related parties	**51,100**
	77,829

10. CONTROLLED ENTITIES

Cann Group Limited has five wholly-owned subsidiaries as at 30 June 2015 as follows:

Subsidiary Name	Date Acquired	Number of Shares held	Percentage Shareholding
Cannproducts Pty Ltd (ACN 600 887 189)	27 February 2015	100	100%
Cannoperations Pty Ltd (ACN 603 323 226)	27 February 2015	100	100%
Anslinger Holdings Pty Ltd (ACN 169 764 407)	27 February 2015	100	100%
Cannlabs Australia Pty Ltd (formerly Grow Room Investments (Aust) Pty Ltd) (ACN 603 792 794)	27 February 2015	100	100%
Cann Investments Pty Ltd (ACN 604 834 488)	18 March 2015	100	100%

All of these investments are recorded at cost in the financial records of the ultimate parent company, Cann Group Limited and form part of the consolidated results of Cann Group Limited. The Directors have examined the purchase accounting for each of these investees of Cann Group Limited and have determined that each individual subsidiary on its own does not have the inputs, processes and outputs on its own to meet the accounting definition of a business which the Directors consider can only be achieved collectively within the entire consolidated group. Consequently, on acquisition, the assets and liabilities acquired have been recorded at their historical cost (and not fair) values.

11. ORDINARY SHARES

The group has on issue 6,175,000 ordinary fully paid shares, including 150,000 shares issued after balance date.

Ordinary shares participate in dividends and the proceeds on winding up of the company in proportion to the number of shares held. At shareholders' meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

Notes to the financial statements

11. ORDINARY SHARES *(continued)*

Ordinary Shares

Issue Date	Issue Price $	Number of Shares	2015 $
30 January 2015	-	10,030	-
31 January 2015	0.192	4,989,970	967,006
22 May 2015 (net of costs)	1.00	1,025,000	990,000
Balance 30 June 2015		**6,025,000**	**1,957,006**
13 August 2015	1.00	150,000	150,000
Balance 22 September 2015		**6,175,000**	**2,107,006**

The Holding Company was incorporated on 30 January 2015 with initial issued capital of 10,030 Ordinary Shares issued to related parties

On 31 January 2015 the Company issued 4,989,970 Ordinary Shares issued at $0.192 per share to related parties, the exact breakdown is as follows:

	2015 $
Equity-settled Share Based Payment as consideration for the reimbursement of costs borne on behalf of the Group by related parties	**447,372**
Equity-settled Share Based Payment to related parties in respect to their contribution to the foundation of the Group	**519,634**
Total	**967,006**

Both tranches of payments were charged to the profit or loss.

On 22 May 2015 the Company issued 1,025,000 Ordinary Shares at one dollar ($1.00) per Share pursuant to the Information Memorandum dated 14 April 2015 including 150,000 Ordinary Shares issued to related parties.

On 13 August 2015 the Company issued a further 150,000 Ordinary Shares at one dollar ($1.00) per Share by placement subject to the same terms and conditions as those Ordinary Shares issued pursuant to the Information Memorandum.

12. PERFORMANCE RIGHTS

The Company has issued 4,500,000 Performance Rights at $0.0001 per Right comprising 2,750,000 Class A Performance Rights and 1,750,000 Class B Performance Rights of which:

- 2,417,500 Class A Performance Rights and 1,417,500 Class B Performance Rights have been issued to Directors and Key Management Personnel of the Group; and
- 332,500 Class A Performance Rights and 332,500 Class B Performance Rights have been issued to non-related party consultants and advisors in consideration for various advisory services.

Notes to the financial statements

12. PERFORMANCE RIGHTS *(continued)*

The Performance Rights have the following milestones attached to them, which are their vesting conditions:

(i) **Class A Performance Rights**: if the Company issues further Shares in addition to the New Shares at $1.50 per Share or higher subject to, if, at any time, the issued capital of the Company is reorganised (including consolidation, subdivision, reduction or return), all rights of a holder of a Performance Right (including the Vesting Conditions) are to be changed in a manner consistent with the *Corporations Act* and the ASX Listing Rules at the time of the reorganisation; and

(ii) **Class B Performance Rights**: if the Company applies to be admitted to the Official List of the ASX or a trade sale of the underlying business of the Company or the Company occurs.

The Performance Rights were issued for $0.0001 each and no consideration will be payable upon the vesting of the Performance Rights.

Upon satisfaction of the relevant Performance Rights vesting, each Performance Right will, at the election of the holder, vest and convert as follows:

(i) each Class A Performance Right converts into one Share; and

(ii) each Class B Performance Right converts into one Share.

Based on the above, the performance rights reserve has been calculated as at 30 June 2015 as follows:

Class	Number of rights	Grant Date	Fair value (cents)	Vested	Total in reserve $
A	2,750,000	31 January 2015	19.18	50%	263,698
B	1,750,000	31 January 2015	19.18	50%	167,807
	4,500,000				431,505

Grant date: this was the date that all participants to the Performance Rights had a shared understanding of the terms and conditions of the arrangement.

Fair value: this was determined with reference to the prevailing seed capital price at that date, being the value attributed to shares issued in consideration the reimbursement of expenses borne on behalf of the Group by related parties.

% vested: for both performance milestones described above, the Directors have assessed a 50% probability.

If the Milestone attaching to a Performance Right has not been satisfied in the time periods set out below, it will automatically lapse:

(iii) Class A Performance Rights: 3 years from 22 May 2015;

(iv) Class B Performance Rights: 4 years from 22 May 2015;

otherwise, any Performance Right that has not been converted into a Share on or before the date of admission of the Company to the Official List of the ASX will automatically lapse.

Notes to the financial statements

13. RELATED PARTY INFORMATION

	2015 $
Transactions between the Consolidated Group and related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated. . Related party transactions not otherwise disclosed in these financial statements include the following:	
Fees for hire of office equipment and furniture were paid to Odd Couple Productions Pty Ltd, a company of which Mr Michael Murchison is a Director and shareholder.	**15,000**
	15,000

14. CONTINGENT LIABILITIES AND COMMITMENTS

The Group believes that no contingent liabilities or commitments exist as at the date of signing this Annual Report.

15. EVENTS AFTER THE END OF THE REPORTING PERIOD

Issue of Shares

On 14 August 2015 the Company issued 150,000 Shares at a price of $1.00 per share on the same terms and conditions as those shares issued pursuant to the abovementioned Information Memorandum.

Apart from the above Issue of Shares there were no matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operation of the group, the results of those operations, or the state of affairs of the group in future financial years.

Entry into Lease of premises

On 4 September 2015 Cannoperations Pty Ltd, a wholly-owned subsidiary of Cann Group Limited, entered into a lease for premises for a period of 3 years and 6 months with two further options of 3 years each.

16. CASH FLOW INFORMATION

Reconciliation of net loss after tax to net cash flows from operations-

	2015 $
Profit/(loss) for the period	**(1,740,186)**
Non-cash flows in profit	
Issue of shares to founders	**967,006**
Issue of performance rights	**431,505**
Movements in working capital	
(Increase)/decrease in trade receivables and other assets	**(3,961)**
(Decrease)/increase in trade and other payables	**77,829**
Net cash outflows from operating activities	**(267,807)**

Notes to the financial statements

17. FINANCIAL RISK MANAGEMENT

The consolidated group's financial instruments consist of deposits with banks and its accounts payable and receivable. The Board is responsible for managing the Group's only significant financial risk, which is its liquidity risk, which it does through regularly reviewing rolling cash flow forecasts and examining its levels of available working capital against such forecasts. For further details concerning this, refer to Note 2(a).

Liquidity risk arises from the possibility that the Group may encounter difficulty in meeting its obligations for its financial liabilities, which at 30 June 2015 were accounts payable with due terms from 0 – 45 days. For details of these refer to Note 9.

The Directors have assessed that the fair values of the Group's financial assets and liabilities reasonably approximate their carrying values, as represented in these financial statements.

1. The Directors declare that the financial statements and notes set out on pages 6 to 23 are in accordance with the *Corporations Act 2001* and:

a. comply with International Financial Reporting Standards, as stated in Note 2 to the financial statements;

b. comply with Accounting Standards, the Corporations Regulations 2001; and

c. give a true and fair view of the financial position as at 30 June 2015 and of the performance for the period ended 30 June 2015 of the Company and the consolidated group.

2. The Chief Executive Officer and Company Secretary have each declared that:

a. the financial records of the Company for the period ended 30 June 2015 have been properly maintained in accordance with section 286 of the *Corporations Act 2001*;

b. the financial statements and notes for the period comply with the Accounting Standards; and

c. the financial statements and notes for the period give a true and fair view.

3. In the Directors' opinion there are reasonable grounds to believe that the Company 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 Directors.

Allan McCallum
Chairman
Date: 22 September 2015