CANN GROUP LIMITED
and its controlled entities

ABN 25 603 949 739

ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED
30 JUNE 2016

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), Cann Investments Pty Ltd (incorporated and domiciled in Victoria, Australia), Cannproducts NZ Limited (domiciled in New Zealand) and Cann Global Inc (incorporated and domiciled in Nevada, USA) (together, the **Group**). These financial statements are for the year ended 30 June 2016. 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)

Mr Philip Jacobsen (Deputy Chairman)

Mr Douglas Rathbone

Mr Alberto Mariani (resigned 11 April 2016)

Mr Michael Murchison (appointed 3 December 2015)

Mr Geoffrey Pearce (appointed 11 April 2016)

Registered and Principal Office

52 Duerdin Street

Clayton VIC 3168

Contents

DIRECTORS' REPORT

Your directors present their report on the group for the year ended 30 June 2016.

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 (Executive Chairman)

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
3,840,000 Ordinary Shares
640,000 Options
2,000,000 Performance Rights Class A
1,000,000 Performance Rights Class B

Philip Robert Nicholas Jacobsen, CPA (Deputy Chairman)

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 and Jacobsen Bloodstock. Former Chair of MCM Entertainment Group, Philip brings to the Board a 45 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
2,300,000 Ordinary Shares
800,000 Options
1,000,000 Performance Rights Class A
500,000 Performance Rights Class B

Douglas John Rathbone, AM, FATSE, FI ChemE, ARMIT B Comm, TTC

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
1,120,000 Ordinary Shares
320,000 Options
80,000 Performance Rights Class A
80,000 Performance Rights Class B

Michael Kenneth Murchison, MAICD (appointed 3 December 2015)

Michael is an experienced project manager, with direct experience and business interests in the US regulated cannabis industry. He holds certifications under Californian medicinal cannabis laws and is a long term advocate for the development of a regulated medicinal cannabis industry in Australia. Michael founded the first Cann Group company in early 2014 after a successful career in the music and entertainment promotions industry. Apart from his extensive knowledge of the international medicinal cannabis industry, Michael brings experience in logistics, international business and technology licensing.

Special Responsibilities - Member – Audit and Risk Committee

Interest in Shares and Performance Rights
13,600,000 Ordinary Shares
6,480,000 Performance Rights Class A
4,260,000 Performance Rights Class B

Geoffrey Ronald Pearce (appointed 11 April 2016)

Geoff is a successful entrepreneur and businessman with more than 40 years' experience in the personal care industry. He established and owned Scental Pacific Pty Ltd and grew the business to become Victoria's largest manufacturer of personal care products before selling it to the Smorgon Family. He later built a contract manufacturing business, Beautiworx Australia Pty Ltd, which was also sold. Geoff currently owns The Continental Group, which supplies pharmaceutical packaging and raw materials and has developed alliances with some of the world's leading herbal extract manufacturers. He has extensive experience in areas including manufacturing, procurement, distribution and regulatory affairs.

Special Responsibilities - Member – Audit and Risk Committee

Interest in Shares and Performance Rights
520,000 Ordinary Shares
320,000 Options

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

CHIEF EXECUTIVE OFFICER

Peter Crock – CEO, B.Ag.Sci (Hon); MBA (appointed 23 May 2016)

Peter is an experienced public company senior manager with strong skills in marketing and technology development. In a 28-year career at Nufarm Limited, Peter held senior management roles in marketing, business development, and information technology, most recently heading up the group's new technologies division which involved the licensing and commercial development of several new agribusiness technologies. He has project managed the successful integration of newly acquired businesses and has extensive experience working with regulators in Australia and overseas.

COMPANY SECRETARY

Richard Baker, M.Commrcl Law, B.Ec., CPA

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.

DIVIDENDS

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

PRINCIPAL ACTIVITIES

The principal activities of the group during the year consisted of developing a manufacturing and a technology structure to conduct scientific research with a view to commercialise the outputs of that research for medicinal uses.

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

OPERATING RESULTS FOR THE PERIOD

The group made an operating loss of $1,462,011 for the period ended 30 June 2016.

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 $648,000 at an offer price of $0.60 per new share together with a 1:1 option (for no additional consideration and exercisable at $0.60, or $0.15 post the share-split of 30 June 2016) for each new share, with capacity to accept oversubscriptions of $648,000, from sophisticated and professional investors under section 708 of the *Corporations Act.* The Offer closed on 12 May 2016 and raised $1,927,000 (before costs).

Deregistration of Cannlabs Australia Pty Ltd

On 11 May 2016 the Directors of Cannlabs Australia Pty Ltd (ACN 603 792 794) ("Cannlabs") applied for voluntary deregistration of the Company. Cannlabs is a wholly-owned subsidiary of Cann Group Limited. The Australian Securities and Investments Commission is processing the application as at the date of this report. It was determined by the Board of Cann Group Limited that Cannlabs was superfluous to the Group structure going forward and cost savings could be made by deregistering the Company.

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

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

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 and Audit and Risk Committee members held during the year ended 30 June 2016 and the number of meetings attended by each Director / member were:

	Board Meetings		**Audit and Risk Committee Meetings**	
Name	**Number eligible to attend**	**Number attended**	**Number eligible to attend**	**Number attended**
Allan McCallum	9	9	2	2
Philip Jacobsen	9	9	2	2
Douglas Rathbone	9	9	2	2
Alberto Mariani (resigned 11 April 2016)	8	8	2	2
Michael Murchison (appointed 3 December 2015)	5	5	1	1
Geoff Pearce (appointed 11 April 2016)	1	1	-	-

OPTIONS

The group has on issue 12,846,667 options to purchase ordinary fully paid shares. The options were issued pursuant to the Information Memorandum dated 11 April 2016 entitling each subscriber to one option at no additional cost for each new share subscribed for under that Information Memorandum.

The options are exercisable at $0.60 pre share-split and $0.15 post share-split (which occurred on 30 June 2016) at any time during the period commencing from the date of its issue and expiring on the earlier of 4:00pm (Melbourne, Victoria time) on 31 March 2017 or the date of allotment of new shares under a prospectus issued by the Company in relation to its admission to the Official List of the ASX.

PERFORMANCE RIGHTS

The Company has issued 18,000,000 Performance Rights at $0.0001 per Right comprising 11,000,000 Class A Performance Rights and 7,000,000 Class B Performance Rights of which:

- 9,560,000 Class A Performance Rights and 5,840,000 Class B Performance Rights (post share-split) have been issued to Directors and Key Management Personnel of the Company; and
- 1,440,000 Class A Performance Rights and 1,160,000 Class B Performance Rights (post share-split) have been issued to a former Director and 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 ($0.375 post share-split) 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.

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

On 3 August 2016 the Directors wrote to the Company advising of their notice of intention to provide financial support to Cann Group Limited by not calling upon Director Fees owing or accrued by that Director, so that the Company has sufficient working capital in order to pay its debts as and when they fall due and payable, for a period of at least 13 months from the date of signing of the letter, or to such a point in time that the Company is able to satisfy its commitments and obligations to its suppliers and employees without such help and without jeopardising its available working capital position. In their letters the Directors also noted that they have the option, but not the obligation, to provide additional working capital to the Company by the exercise their option-holdings in a seed capital raising prior to the expiry date of those options, being 31 March 2017. Details of their interests in share options, exercisable at a strike price of 15 cents are disclosed in Note 5.

There were no other matters or circumstances have arisen since the end of the 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.

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

____
Allan McCallum
CHAIRMAN
Date: 3 August 2016

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CANN GROUP LIMITED AND CONTROLLED ENTITIES (CONT)

Auditor's Opinion

In our opinion:

c) the accompanying financial report of Cann Group Limited is in accordance with the *Corporations Act 2001*, including:

   iii. giving a true and fair view of the Company and consolidated entity's financial position as at 30 June 2016 and of its performance for the year ended on that date; and

   iv. complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations *Regulations 2001*; and

d) the financial report also complies with International Financial Reporting Standards as disclosed in Note 2.

William Buck

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

N. S. Benbow
Director

Dated this 3rd day of August, 2016

Consolidated Statement of Profit or Loss and other Comprehensive Income

FOR THE PERIOD ENDED 30 JUNE 2016

	Note	2016 $	For the period 30 January 2015 to 30 June 2015 $
Revenue	3	**6,662**	5,726
Administration and corporate costs		**(589,200)**	(380,958)
Depreciation		**(28,917)**	-
Employee remuneration		**(216,778)**	-
Finance costs		**(15,533)**	(5,231)
Occupancy expenses		**(79,754)**	(15,303)
Operational preparation costs		**(178,140)**	(45,693)
Professional fees		**(95,682)**	(13,025)
Performance rights expense		**(83,904)**	(381,163)
Share based payments		**-**	(519,634)
Research and development		**(64,404)**	(182,247)
Travel expenses		**(93,287)**	(173,299)
Other expenses		**(23,074)**	(29,359)
Loss before income tax		**(1,462,011)**	(1,740,186)
Income tax expense	4	**-**	-
Loss attributable to members of the company		**(1,462,011)**	(1,740,186)
Other comprehensive income		**-**	-
Total comprehensive loss attributable to members of the company		**(1,462,011)**	(1,740,186)

The accompanying notes form part of these statements.

Consolidated Statement of Financial Position

AS AT 30 JUNE 2016

	Note	2016 $	2015 $
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents		**1,344,055**	450,824
Trade receivables and other assets	7	**5,519**	103,961
TOTAL CURRENT ASSETS		**1,349,574**	554,785
NON-CURRENT ASSETS			
Plant and equipment	8	**486,758**	171,369
Rental bond		**35,000**	-
TOTAL NON-CURRENT ASSETS		**521,758**	171,369
TOTAL ASSETS		**1,871,332**	726,154
LIABILITIES			
CURRENT LIABILITIES			
Unsecured trade and other payables	9	**181,849**	77,829
TOTAL CURRENT LIABILITIES		**181,849**	77,829
TOTAL LIABILITIES		**181,849**	77,829
NET ASSETS		**1,689,483**	648,325
EQUITY			
Ordinary share capital	11	**4,376,271**	1,957,006
Performance rights reserve	13	**515,409**	431,505
Accumulated losses		**(3,202,197)**	(1,740,186)
TOTAL EQUITY		**1,689,483**	648,325

The accompanying notes form part of these statements

Consolidated Statement of Changes in Equity

FOR THE PERIOD ENDED 30 JUNE 2016

	Ordinary shares	Performance Rights reserve	Accumulated losses	Total equity
	$	$	$	$
Balance at 1 July 2015	**1,957,006**	**431,505**	**(1,740,186)**	**648,325**
Issue of shares	2,527,000	-	-	2,527,000
Costs of issuing shares	(107,735)	-	-	(107,735)
Vesting of Class B performance rights	-	83,904	-	83,904
Comprehensive loss for the period ended 30 June 2016	-	-	(1,462,011)	(1,462,011)
Balance at 30 June 2016	**4,376,271**	**515,409**	**(3,202,197)**	**1,689,483**

	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

Consolidated Statement of Cash Flows

FOR THE PERIOD ENDED 30 JUNE 2016

	Note	2016 $	2015 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		**420**	3,357
Payments to suppliers and employees		**(1,253,428)**	(272,231)
Interest receipted		**6,280**	1,067
Net cash flows provided used in operating activities	17	**(1,246,728)**	(267,807)
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property, plant and equipment		**(344,305)**	(171,369)
Acquisition of other assets		**(35,000)**	
Net cash flows used in investing activities		**(379,305)**	(171,369)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issues of shares		**2,627,000**	925,000
Costs of issuing shares		**(107,736)**	(35,000)
Net cash flows provided by financing activities		**2,519,264**	890,000
Net increase/ (decrease) in cash held		**893,231**	450,824
Cash and cash equivalents at the beginning of the period		**450,824**	-
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		**1,344,055**	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 Limited (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), Cann Investments Pty Ltd (incorporated and domiciled in Victoria, Australia), Cannproducts NZ Limited (domiciled in New Zealand) and Cann Global Inc (incorporated and domiciled in Nevada, USA) (together, the **Group**). Cann Group Limited is an unlisted public company incorporated and domiciled in Victoria, Australia. These financial statements are for the year ended 30 June 2016. Unless otherwise stated, all amounts are presented in $AUD, which is the functional and presentation currency of all entities in the Group. The financial statements were authorised for issue by the Directors on the date of signing the attached Directors' Declaration.

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.

Accounting Standards and Interpretations

(i) Changes in accounting policy and disclosures
The Group has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

(ii) Accounting standards and interpretations issued but not yet effective
Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective and have not been adopted by the Group for the annual reporting period ending 30 June 2016 are outlined in the table below.

Standard	Mandatory date for annual reporting periods beginning on or after)	Reporting period standard adopted by the company
AASB 9 Financial Instruments and related standards	1 January 2018	1 July 2018
AASB 2014-4 Clarification of Acceptable Methods of Depreciation and Amortisation	1 January 2016	1 July 2016
AASB 15 Revenue from Contracts with Customers and AASB 2014-5 Amendments to Australian Accounting Standards from AASB 15	1 January 2018	1 July 2018
AASB 2014-9 Equity method in separate financial statements	1 January 2016	1 July 2016
AASB 2015-1 Annual improvements 2012-2014 cycle	1 January 2016	1 July 2016
AASB 2015-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101	1 January 2016	1 July 2016
AASB 2015-9 Amendments to Australian Accounting Standards	1 January 2016	1 July 2016
AASB 16 Leases	1 January 2019	1 July 2018

Notes to the financial statements

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

Basis of accounting *(continued)*
Management have assessed that these new standards will not materially impact these financial statements.

(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.

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.

(g) 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.

(h) 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.

(i) 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.

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.

Notes to the financial statements

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

(j) 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 2016, the Group's asset classes had effective useful lives as follows:

Asset Class	Useful Life (years)
Grow Room facilities and infrastructure	7
Computer, network and security equipment	1 to 3
Tools and workshop equipment	1 to 2
Leasehold improvements	2
Office furniture and equipment	1 to 3

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.

(k) 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.

Notes to the financial statements

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

(l) 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.

For share-based payments received by employees and key management personnel of the group, fair value is measured by reference to the fair value of the equity instruments granted at their grant date, being the date that both the recipient and the Company have a shared understanding of the terms and conditions connected to the share-based payment. Any market-based vesting conditions are incorporated into the valuation of the share-based payment arrangement as at the grant date of the share-based payment. Share-based payments with non-market based performance conditions vest according to the pro-rata achievement of those conditions. Share-based payments with market-based performance conditions are valued using a binomial model which incorporates from both the performance rights arrangement and market data that existed at grant date.

(m) Research and Development Tax Incentive

The Group 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 Consolidated Statement of Profit and Loss and Other Comprehensive Income.

(n) 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 probability of achieving milestones for vesting of Performance Rights

In determining the probability of the Group achieving each of the respective milestones for the 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 operational, business and legal progress to 30 June 2016 and progress towards an Initial Public Offering scheduled for the first half of the 2017 Financial Year. It was determined as at 30 June 2016 that the Group had a seventy-five percent (75%) likelihood of achieving the milestone that would result in the vesting of the Class B Performance Rights.

This percentage was applied to the fair value of each class of the Class B Performance Rights at grant date thereby resulting in the valuation of each class of Performance Rights as at 30 June 2016. The milestones for vesting of the Performance Rights are contained in Note 13 – Performance Rights.

Notes to the financial statements

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

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

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 as at this stage as it cannot be reliably calculated. 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.

Notes to the financial statements

3. REVENUE

	2016 $	For the period 30 January 2015 to 30 June 2015 $
Licencing fees	-	4,659
Other income		
Interest received	**6,280**	1,067
Other income	**382**	-
	6,662	5,726

4. INCOME TAX EXPENSE

The prima-facie tax on profit from ordinary activities before income tax is reconciled to income tax as follows:		
Profit / (loss) before income tax	**(1,462,011)**	(1,740,186)
Prima-facie tax payable on profit / (loss) from ordinary activities before income tax at 30%	**(438,603)**	(522,056)
Add:		
Tax effect of:		
- Non-deductible expenses	**272**	155,890
	438,331	(366,166)
The Directors estimate that the potential deferred income tax assets not brought to account is	**(804,497)**	(366,166)
Tax benefits not recognised during the period	**804,497**	366,166
Income Tax Expense for the period	**-**	-

At the end of the reporting period, the group has tax losses of $804,497 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 key management personnel in office at any time during the year are:

Key Management Person	Position
Mr Allan McCallum	Chairman
Mr Philip Jacobsen	Deputy Chairman
Mr Douglas Rathbone	Director
Mr Alberto Mariani (resigned 11 April 2016)	Director
Mr Geoff Pearce (appointed 11 April 2016)	Director
Mr Michael Murchison	Director
Mr Peter Crock (appointed 23 May 2016)	Chief Executive Officer

Notes to the financial statements

5. **KEY MANAGEMENT PERSONNEL** *(continued)*

(b) Number of Shares held by Key Management Personnel

Name	Balance 1 July 2015	Issued on exercise of Performance Rights	Net Change Other*	Net Change Share Split**	Balance 30 June 2016
Mr Allan McCallum	800,000	-	160,000	2,880,000	3,840,000
Mr Philip Jacobsen	375,000	-	200,000	1,725,000	2,300,000
Mr Douglas Rathbone	50,000	-	230,000	890,000	1,120,000
Mr Geoff Pearce	50,000	-	80,000	390,000	520,000
Mr Michael Murchison	3,400,000	-	-	10,200,000	13,600,000
Total	**4,675,000**	**-**	**670,000**	**16,085,000**	**21,380,000**

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.

** Net Change Share-split refers to the share-split on the basis that every share be divided into four fully paid ordinary shares with effect from 5:00pm (Melbourne time) on 30 June 2016 approved at the Annual General Meeting held that day.

(c) Number of Options held by Key Management Personnel

Name	Balance 1 July 2015	Net Change Other*	Net Change Share Split**	Balance 30 June 2016
Mr Allan McCallum	-	160,000	480,000	640,000
Mr Philip Jacobsen	-	200,000	600,000	800,000
Mr Douglas Rathbone	-	80,000	240,000	320,000
Mr Geoff Pearce	-	80,000	240,000	320,000
Total	**-**	**520,000**	**1,560,000**	**2,080,000**

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

** Net Change Share-split refers to the share-split on the basis that every share be divided into four fully paid ordinary shares with effect from 5:00pm (Melbourne time) on 30 June 2016 approved at the Annual General Meeting held that day, applied in the same basis to all securities on issue including options and performance rights.

Notes to the financial statements

5. KEY MANAGEMENT PERSONNEL *(continued)*

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

Name	Balance 1 July 2015	Net Change Other*	Net Change Share Split**	Balance 30 June 2016
Mr Allan McCallum	500,000	-	1,500,000	2,000,000
Mr Philip Jacobsen	250,000	-	750,000	1,000,000
Mr Douglas Rathbone	20,000	-	60,000	80,000
Mr Michael Murchison	1,487,000	133,000	4,860,000	6,480,000
Total	**2,257,000**	**133,000**	**7,170,000**	**9,560,000**

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**

* Net Change Other refers to Performance Rights Class A purchased or sold or otherwise transferred during the period.

** Net Change Share-split refers to the share-split on the basis that every share be divided into four fully paid ordinary shares with effect from 5:00pm (Melbourne time) on 30 June 2016 approved at the Annual General Meeting held that day, applied in the same basis to all securities on issue including options and performance rights.

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

Name	Balance 1 July 2015	Net Change Other*	Net Change Share Split**	Balance 30 June 2016
Mr Allan McCallum	250,000	-	750,000	1,000,000
Mr Philip Jacobsen	125,000	-	375,000	500,000
Mr Douglas Rathbone	20,000	-	60,000	80,000
Mr Michael Murchison	932,500	132,500	3,195,000	4,260,000
Total	**1,327,500**	**132,500**	**4,380,000**	**5,840,000**

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**

* Net Change Other refers to Performance Rights Class B purchased or sold or otherwise transferred during the period.

** Net Change Share-split refers to the share-split on the basis that every share be divided into four fully paid ordinary shares with effect from 5:00pm (Melbourne time) on 30 June 2016 approved at the Annual General Meeting held that day, applied in the same basis to all securities on issue including options and performance rights.

Notes to the financial statements

5. KEY MANAGEMENT PERSONNEL *(continued)*

(f) Remuneration paid to Key Management Personnel

	2016	For the period 30 January 2015 to 30 June 2015
	$	$
Directors Fees	**35,000**	-
Salary and wages	**17,876**	-
Superannuation	**27,825**	-
Allowances	**34,124**	-
Share based payments	**-**	519,634
Consulting fees	**39,069**	140,000
Vesting charge for Performance Rights	**69,976**	393,149
	223,870	1,052,783

2016

Name	Directors Fees	Superan-uation	Salary and Allowances	Consulting Fees	Vesting charge for Performance Rights	Total
Mr Allan McCallum	8,000	760	-	-	11,982	20,742
Mr Philip Jacobsen	8,000	760	-	-	5,991	14,751
Mr Douglas Rathbone	8,000	760	-	-	959	9,719
Mr Alberto Mariani (resigned 11 April 2016)	8,000	760	-	-	-	8,760
Mr Michael Murchison	3,000	24,785	52,000	-	51,044	130,829
Mr Geoff Pearce (appointed 11 April 2016)	-	-	-	-	-	-
Mr Peter Crock	-	-	-	39,069	-	39,069
Total	**35,000**	**27,825**	**52,000**	**39,069**	**69,976**	**223,870**

2015

Name	Directors Fees	Superan-uation	Share-based Payments	Consulting Fees	Vesting charge for Performance Rights	Total
Mr Allan McCallum	-	-	-	-	71,917	71,917
Mr Philip Jacobsen	-	-	-	-	35,959	35,959
Mr Douglas Rathbone	-	-	-	-	3,836	3,836
Mr Alberto Mariani	-	-	-	-	23,972	23,972
Mr Michael Murchison	-	-	519,634	140,000	257,465	917,099
Total	**-**	**-**	**519,634**	**140,000**	**393,149**	**1,052,783**

6. AUDITOR'S REMUNERATION

	2016	2015
	$	$
Remuneration of the auditors of the group for:		
Auditing the financial statements – William Buck	**11,000**	10,000
	11,000	10,000

Notes to the financial statements

7. TRADE RECEIVABLES AND OTHER ASSETS

	2016 $	2015 $
Current		
Trade receivables	-	1,300
Share Subscription receivables	-	100,000
		101,300
Reimbursements due from related parties	-	2,661
Prepaid expenses due from related parties	**5,519**	-
	5,519	103,961

8. PLANT AND EQUIPMENT

	2016			2015	
	Growth Facilities $	**Other Assets**	**Total $**	Growth Facilities $	Total $
Opening Balance	**171,369**	**-**	**171,369**	-	-
Additions	**298,120**	**46,186**	**344,306**	171,369	171,369
Depreciation	**(17,117)**	**(11,800)**	**(28,917)**	-	-
Closing Balance	**452,372**	**34,386**	**486,758**	171,369	171,369

During the year the Modular Plant Growth Research Facility was completed to operational levels and was available for use as at 1 April 2016. Growing operations commenced at that time and depreciation commenced from 1 April 2016. In addition to this a used Laboratory Facility was purchased and depreciation commenced from the date of being available for use. The remaining four Modular Plant Growth Facilities were in various stages of construction as at 30 June 2016. As at 30 June 2016 the Directors reviewed the overall progress of the Modular Plant Growth Facilities and the Directors conducted an impairment test which was applied as at 30 June 2016 whereby the Directors compared the carrying values of the four Modular Plant Growth Facilities to the selling values of comparable assets and concluded that no impairment existed relating to these assets.

9. UNSECURED TRADE AND OTHER PAYABLES

	2016 $	2015 $
Current		
Unsecured trade and other payables	**181,849**	26,729
Unsecured payables - related parties	**-**	51,100
	181,849	77,829

Notes to the financial statements

10. CONTROLLED ENTITIES

Cann Group Limited has six wholly-owned subsidiaries as at 30 June 2016 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%
Cann Investments Pty Ltd (ACN 604 834 488)	18 March 2015	100	100%
Cann Global Inc	20 August 2014	100	100%
Cannproducts NZ Limited	8 April 2016	100	100%

11. ORDINARY SHARES

The group has on issue 39,346,668 ordinary fully paid shares.

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.

Ordinary Shares

			2016
Issue Date	**Issue Price $**	**Number of Shares**	**$**
Balance 1 July 2015		**6,025,000**	**1,957,006**
13 August 2015 - placement	1.00	150,000	150,000
30 October 2015 - placement	1.00	450,000	450,000
12 May 2016 – issued pursuant to Information Memorandum	0.60	3,211,667	1,927,000
30 June 2016*	-	29,510,001	-
30 June 2016** Costs of issuing shares	-	-	(107,735)
Balance 30 June 2016		**39,346,668**	**4,376,271**

			2015
Issue Date	**Issue Price $**	**Number of Shares**	**$**
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**

Notes to the financial statements

11. ORDINARY SHARES *(continued)*

*On 30 June 2016, at the Annual General Meeting held on that day, shareholders passed the resolution that in accordance with section 254H of the Corporations Act 2001 (Cth), the fully paid ordinary shares in the issued capital of the Company be split on the basis that every share be divided into four fully paid ordinary shares with effect from 5.00pm (Melbourne time) on 30 June 2016. Options and performance rights on issue at the effective date of the share split were also adjusted which involved an increase in the number of these securities in the same ratio as the share split, and a decrease in the exercise price in the inverse ratio.

**During the year the Company incurred costs of $46,467 from issuing shares on 12 May 2016 and on 30 June 2016 the Company recognised costs of $61,268 incurred pursuant to the proposed Initial Public Offering.

12. OPTIONS

The group has on issue 12,846,667 options to purchase ordinary fully paid shares. The Options were issued pursuant to the Information Memorandum dated 12 April 2016 which issued one Option at no additional cost for each new share subscribed for under that Information Memorandum.

The options are exercisable at $0.60 ($0.15 post share-split on 30 June 2016) at any time during the period commencing on the date of its issue and expiring on the earlier of 4:00pm (Melbourne, Victoria time) on 31 March 2017 and 4:00pm (Melbourne, Victoria time) on the date of allotment of the new shares under a prospectus issued by the Company in relation to its admission to the Official List of the ASX.

		2016	
Issue Date	**Issue Price $**	**Number of Options**	**$**
Balance 1 July 2015		**-**	**-**
12 May 2016*	-	3,211,667	-
30 June 2016**	-	9,635,001	-
Balance 30 June 2016		**12,846,668**	**-**

*On 12 May 2016 the Company issued 3,211,667 Ordinary Shares at one dollar ($1.00) per Share pursuant to the Information Memorandum dated 11 April 2016 and issued one attaching Option at no additional cost for each new share subscribed for under that Information Memorandum.

**On 30 June 2016, at the Annual General Meeting held on that day, shareholders passed the resolution that in accordance with section 254H of the Corporations Act 2001 (Cth), the fully paid ordinary shares in the issued capital of the Company be split on the basis that every share be divided into four fully paid ordinary shares with effect from 5.00pm (Melbourne time) on 30 June 2016. Options and performance rights on issue at the effective date of the share split were also adjusted which involved an increase in the number of these securities in the same ratio as the share split, and a decrease in the exercise price in the inverse ratio.

Notes to the financial statements

13. PERFORMANCE RIGHTS

The Company has issued 18,000,000 Performance Rights at $0.0001 per Right comprising 11,000,000 Class A Performance Rights and 7,000,000 Class B Performance Rights of which:

- 9,560,000 Class A Performance Rights and 5,840,000 Class B Performance Rights have been issued to Directors and Key Management Personnel of the Company; and
- 1,440,000 Class A Performance Rights and 1,160,000 Class B Performance Rights have been issued to a former Director and non-related party consultants and advisors in consideration for various advisory services.

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 $0.375 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 2016 as follows:

Class	Number of rights (post share-split)	Grant Date	Fair value (post share-split) (cents)	Vested	Total in reserve $
A	11,000,000	31 January 2015	2.40	100%	263,698
B	7,000,000	31 January 2015	4.80	75%	251,711
	18,000,000				515,409

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

Notes to the financial statements

14. RELATED PARTY INFORMATION

	2016 $	For the period 30 January 2015 to 30 June 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 United States representative services were paid to BPI Inc., a company of which Mr Michael Murchison is a Director and shareholder.	**41,100**	-
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.	**35,500**	15,000
Purchase of office equipment and furniture from Odd Couple Productions Pty Ltd, a company of which Mr Michael Murchison is a Director and shareholder.	**24,495**	-
Prepayment of funds to enable purchase of materials provided to Mr Michael Murchison not used nor repaid as at balance date.	**5,519**	-
	106,614	15,000

15. CONTINGENT LIABILITIES AND COMMITMENTS

The Company has a bank guarantee of $35,000 for the operating premises lease of the company's premises. With the exception of this bank guarantee, the Company currently has no contingent liabilities or commitments at the date of signing this report.

16. EVENTS AFTER THE END OF THE REPORTING PERIOD

On 3 August 2016 the Directors wrote to the Company advising of their notice of intention to provide financial support to Cann Group Limited by not calling upon Director Fees owing or accrued by that Director, so that the Company has sufficient working capital in order to pay its debts as and when they fall due and payable, for a period of at least 13 months from the date of signing of the letter, or to such a point in time that the Company is able to satisfy its commitments and obligations to its suppliers and employees without such help and without jeopardising its available working capital position. In their letters the Directors also noted that they have the option, but not the obligation, to provide additional working capital to the Company by the exercise their option-holdings in a seed capital raising prior to the expiry date of those options, being 31 March 2017. Details of their interests in share options, exercisable at a strike price of 15 cents are disclosed in Note 5.

There were no other matters or circumstances have arisen since the end of the 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.

Notes to the financial statements

17. CASH FLOW INFORMATION

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

	2016 **$**	For the period 30 January 2015 to 30 June 2015 $
Profit/(loss) for the period	**(1,462,011)**	(1,740,186)
Non-cash flows in profit		
Issue of shares to founders	**-**	967,006
Vesting of performance rights	**83,904**	431,505
Depreciation	**28,917**	-
Movements in working capital		
(Increase)/decrease in trade receivables and other assets	**(1,558)**	(3,961)
(Decrease)/increase in trade and other payables	**104,021**	77,829
Net cash outflows from operating activities	**(1,246,728)**	(267,807)

18. LEASE

On 4 September 2015 the Group entered into a lease for premises at 52 Duerdin Street, Clayton, Victoria, 3168. The term of the lease is three years and six months. The Lease allows for two further terms of three years each.

Lease commitments are:

Period	**$**
Less than 12 months	110,000
From one to five years	183,333
	293,333

19. 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 2016 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.

Notes to the financial statements

20. CAPITAL MANAGEMENT

The Board of Directors are charged with determining the optimal mix of debt and equity which is suitable for the needs of the Group. For the year ended 30 June 2016 the Group held no material commercial borrowings or facilities for credit as the board considered that, at this point of time, that funds sourced through equity would be most appropriate. The Company does have a corporate credit card facility however any accumulated debt is fully repaid on a monthly basis. The Group's treasury function reports to the board periodically with forecast cash flow information that enables the Board to conduct its capital raising activities in an orderly fashion at a dilutive cost to existing shareholders that is appropriate and reasonable.

21. PARENT ENTITY DISCLOSURES

Financial Position	**2016** **$**	2015 $
Assets		
Current assets	**1,378,747**	131,508
Non-current assets	**1,693,207**	1,231,270
Total assets	**3,071,954**	1,362,778
Liabilities		
Current liabilities	**157,662**	21,181
Non-current liabilities	**-**	-
Total liabilities	**157,662**	21,181
Equity		
Issued capital	**4,376,270**	1,957,006
Reserves	**515,409**	431,505
Accumulated losses	**(1,977,417)**	(1,046,914
Total equity	**2,914,262**	1,341,5987

Financial Performance	**2016** **$**	For the period 30 January 2015 to 30 June 2015 $
Loss for the year / period	**(930,503)**	(1,046,914)
Other comprehensive income	**-**	-
Total comprehensive loss	**(930,503)**	(1,046,914)

The subsidiary companies have expenditure commitments under the premises lease. The parent entity has committed to providing funds to ensure the subsidiary companies can fulfil these commitments as well as any other operating commitments.

Directors' Declaration

1. The Directors declare that the financial statements and notes set out on pages 7 to 27 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 2016 and of the performance for the period ended 30 June 2016 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 2016 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: 3 August 2016

William Buck

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CANN GROUP LIMITED AND CONTROLLED ENTITIES

Report on the Financial Report

We have audited the accompanying financial report of Cann Group Limited (the Company), which comprises the consolidated statement of financial position as at 30 June 2016, 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 year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the company and the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

CHARTERED ACCOUNTANTS & ADVISORS

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Melbourne VIC 3000

Hawthorn Office
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Hawthorn East VIC 3123

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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CANN GROUP LIMITED AND CONTROLLED ENTITIES (CONT)

Auditor's Opinion

In our opinion:

a) the accompanying financial report of Cann Group Limited is in accordance with the *Corporations Act 2001*, including:

    i. giving a true and fair view of the Company and consolidated entity's financial position as at 30 June 2016 and of its performance for the year ended on that date; and

    ii. complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations *Regulations 2001*; and

b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 2.

William Buck

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

N. S. Benbow
Director

Dated this 3rd day of August, 2016