

CANN GROUP LIMITED

ANNUAL REPORT 2017

AND ITS CONTROLLED ENTITIES

ABN 25 603 949 739

Note: to be read in conjunction with the
Appendix 4E: Preliminary Final Report
lodged with the Australian Securities
Exchange on 29 August 2017



CORPORATE DIRECTORY

COMPANY

Cann Group Limited
ACN 603 949 739
Registered Office
Level 2, 409 St Kilda Road
Melbourne, Victoria, 3004

DIRECTORS

Allan McCallum
Philip Jacobsen
Doug Rathbone
Geoff Pearce

SHARE REGISTRY

Link Market Services Limited
Tower 4,
727 Collins Street,
Melbourne, Victoria, 3008
Ph: 1300 554 474

COMPANY SECRETARY

Richard Baker

CEO

Peter Crock

AUDITORS

William Buck Audit (VIC) Pty Ltd
Level 20,
181 William Street
Melbourne, Victoria, 3000
Ph: 03 9824 8555

LAWYERS

William Ross Lawyers & Advisers
Level 27,
101 Collins Street
Melbourne, Victoria, 3000
Ph: 03 9653 9400

Corporate Information

These are the 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), Cann IP Pty Ltd (incorporated and domiciled in Victoria, Australia) and Botanitech Pty Ltd (incorporated and domiciled in Victoria, Australia), (together, the Group). These financial statements are for the year ended 30 June 2017. 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.



CONTENTS

IFC	Corporate Directory
2	Message From Chairman and Chief Executive Officer
4	Directors' Report
20	Annual Financial Statements
21	Consolidated Statement of Profit or Loss and other Comprehensive Income
22	Consolidated Statement of Financial Position
23	Consolidated Statement of Changes in Equity
24	Consolidated Statement of Cash Flows
25	Notes to the financial statements
41	Directors' Declaration
42	Independent Auditor's Report
47	Shareholder Information

MESSAGE FROM CHAIRMAN AND CHIEF EXECUTIVE OFFICER

On behalf of our board, we present the 2017 Annual Report for Cann Group Limited, reflecting on a year in which our Company has achieved many important milestones in its development and is continuing to show substantial growth as a market leader.

Cann listed on the Australian Securities Exchange (ASX) in May 2017 following completion of a fully underwritten Initial Public Offer (IPO). The Company issued 45,000,000 new shares at 30 cents per share to raise \$13.5 million before costs. The support and enthusiasm of investors ahead of our listing on the ASX was quite gratifying, and we are pleased to have seen significant growth in our share price since we started trading.

Medicinal cannabis has the potential to revolutionize the way a range of medical conditions are treated and change the lives of possibly hundreds of thousands of Australians, and Cann wants to be the leader in the field. We are focused on breeding, cultivating and manufacturing medicinal cannabis for sale and use within Australia. We see a market opportunity for medicinal cannabis driven by demand from patients with various conditions, and expect the industry will see initial demand for about 8,000kg of highly-refined, pharmaceutical cannabis products that could provide more than A\$100m potential revenue in year one – growing to A\$380m in 2018 and A\$1.3bn in 2026.

The Narcotic Drugs Amendment Bill passed by Australia's Federal Parliament in February 2016 was an integral step to Cann, as it allowed cannabis cultivation for medicinal and related scientific purposes.

Cann was the first Company to secure both the necessary licences (research & cultivation) and permits (one medicinal cannabis permit and two cannabis research permits) from the Office of Drug Control (ODC). The permits have allowed for the establishment of breeding plants for propagation purposes; a research program being undertaken with CSIRO to develop unique cannabis extracts; and the supply of plant material for manufacturing into medicinal cannabis products for patient use.

In late May, the Company received its first plant material to start cultivation of medicinal cannabis. The first plants cultivated at our Southern facility in Melbourne were harvested in August after an eight week flowering cycle. The harvested material was cured and dried in preparation for delivery under Cann's medicinal cannabis licence and permits. The plants have been cultivated under a confidential commercial agreement. Cannabis grown by Cann will be manufactured into a product that can be accessed by patients via clinical trials, or through the TGA's Authorised Prescriber or Special Access Scheme.

We have continued preparations for expanded growing capabilities, with our Northern facility, also in Melbourne to more than quadruple our initial cultivation and production capacity. The Company is in the process of extending its licences and permits for the new facility so it is ready for use in the first half of FY2018. The Company is also adding capacity at its Southern facility with the construction of three new secure cultivation rooms, a drying room, and

secure storage room, all of which will be commissioned by the end of 2017. This expansion is part of a three-phase growth strategy to build our cultivation capability, and we have adequate funds to complete these first two phases through to commissioning of the Northern facility.

We see medicinal cannabis as a high-value agribusiness opportunity after conducting extensive research on the product and market in the lead-up to our listing on the ASX. Our internal research will be further supported by a Technical Services Agreement (TSA) with Aurora Cannabis Inc, Canada's second largest publicly listed medicinal cannabis producer and the first Canadian company to establish purpose built cultivation facilities. The TSA with Aurora, a 19.9% shareholder of Cann, will facilitate an exchange of information and support across areas including the cultivation and processing of medicinal cannabis (particularly the Aurora Sky Project); extraction and manufacturing technology; and analysis of cannabis extracts. Canada has a well-established medicinal cannabis industry, and Aurora is one of its leaders, so this partnership will be very beneficial to Cann in an industry which is still finding its feet in Australia.

This relationship with Aurora demonstrates the skills of Cann's highly motivated and experienced board and management team, which has developed a strategy to build the capabilities and collaborative relationships necessary to capitalise on the opportunities emerging in the industry.

We thank our board members for their leadership, and our management team and staff for their efforts in fulfilling the ASX listing requirements and the achievements made in the months since then. We also thank our shareholders for their support and belief that Cann Group can be a leader in its market, a position we are determined to maintain.

The year ahead will be an exciting one for our Company, as we have already arranged delivery our first plant material after harvesting it from our Southern facility for analytical testing. In the next year, we expect to:

- Commission the Northern facility by the end of 2017
- Deliver first revenues with provision of product for clinical trials in Victoria
- Target and secure research grants with various non-government organisations and/or industry bodies
- Develop our portfolio of intellectual property

We are ramping-up rapidly and Cann will keep our shareholders informed of our progress as we lead the way in Australia's emerging medicinal cannabis sector.

Allan McCallum
Chairman

Peter Crock
Chief Executive Officer

DEVELOPING A WORLD-CLASS, AUSTRALIA-FOCUSED MEDICINAL CANNABIS OPERATION



DIRECTORS' REPORT



DIRECTORS' REPORT

Your directors present their report on the Group for the year ended 30 June 2017.

Information on Directors

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

Allan McCallum, Dip. Ag Science, FAICD (Non-executive Chairman)

Allan has broad experience as a public company director in agribusiness and healthcare who has strong ethics, proven leadership capabilities and extensive experience in strategy development and implementation and mergers and acquisitions. Allan is the current Chair of Tassal Group Ltd (ASX TGR –) from 7 October 2003 Australia's largest producer of Atlantic salmon and a Director of Medical Developments International Ltd (ASX MVP) from 27 October 2003, a pharmaceutical and device manufacturer, marketing nationally and internationally. His previous board roles include Incitec Pivot Ltd (ASX IPL) from 30 January 1998 to 19 December 2013 and Graincorp Ltd (ASX GNR) from 26 February 1998 to 26 August 2005.

Special Responsibilities

Member – Audit and Risk Committee

Interest in Shares

5,480,000 Ordinary Shares

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

3,773,334 Ordinary Shares

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 (ASX NUF) from 21 August 1987 to 4 February 2015 – an ASX 200 listed company and is a former Board member of the FERNZ Corporation and the CSIRO. He Chairman of the Rathbone Wine Group, Director of Cotton Seed Distributors, Leaf Resources Ltd (ASX LER) from 1 November 2016, Go Resources, Queenscliff Harbour Pty Ltd and AgBiTech. He is also 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

2,193,334 Ordinary Shares

DIRECTORS' REPORT

Geoffrey Ronald Pearce

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. He is Chairman of Probiotec Ltd (ASX PBP) since 28 November 2016.

Special Responsibilities

Member – Audit and Risk Committee

Interest in Shares

1,200,000 Ordinary Shares

Michael Kenneth Murchison, MAICD (resigned 28 October 2016)

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

260,000 Ordinary Shares

Chief Executive Officer

Peter Crock – CEO, B.Ag.Sci (Hon); MBA

Peter is an experienced public company senior manager with strong skills in marketing and technology development. In a 28-year career at Nufarm Limited (ASX NUF), 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 and Chief Financial Officer

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.

DIRECTORS' REPORT

Dividends

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

Principal activities

The principal activities of the Group during the year consisted of developing and testing of Cann's cannabis cultivation technology of controlled growing environments with a view to substantially increasing capacity of the growing environments for both research and cultivation purposes and to commercialise the outputs for medicinal uses.

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

Operating results for the year

The Group made a loss of \$2,588,445 for the year ended 30 June 2017.

The Group's basic and diluted earnings per share is (\$0.05) (2016:(\$0.053)). The Weighted Average number of Shares used to calculate the basic and diluted earnings per share is 52,328,805 (2016: 27,592,420).

The net assets of the Group are \$14.66 million as at 30 June 2017 (2016: \$1.69 million).

For further detail please refer to the Message from Chairman and Chief Executive Officer which forms part of this annual report.

Significant changes in the state of affairs

Capital raising

During the year the Company issued an Initial Public Offering (IPO) Prospectus dated 28 March 2017 (and Supplementary Prospectus dated 12 April 2017). The IPO was for an offer of 45,000,000 New Shares in the Company at 30 cents per New Share to raise a minimum of \$13,500,000 before costs (Offer). The Offer was fully underwritten and closed on 26 April 2017.

Listing on Australian Securities Exchange (ASX)

As a result of the successful IPO above the Company applied for and was granted admission to the Official List of the ASX on 4 May 2017.

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

Future developments, prospects and business strategies

Other than matters referred to elsewhere in this report and above, further information as to likely developments in the operations of the Group 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 Group.

Environmental regulation and performance

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

DIRECTORS' REPORT

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 2017 and the number of meetings attended by each Director / member were:

Name	Board Meetings		Audit and Risk Committee Meetings	
	Number eligible to attend	Number attended	Number eligible to attend	Number attended
Allan McCallum	9	8	2	2
Philip Jacobsen	9	9	2	2
Douglas Rathbone	9	9	2	2
Geoff Pearce	9	8	2	2
Michael Murchison (resigned 28 October 2016)	3	3	1	1

Options

During the year the Group issued 13,486,667 ordinary shares resulting from the exercise of 13,486,667 options over shares issued pursuant to the Information Memorandum dated 12 April 2016. The exercise price to exercise the options for the issue of ordinary shares was \$0.15 each. The options were exercised throughout March 2017 and all options were exercised on or before 31 March 2017. Allotment of ordinary shares from the exercise of those options occurred on 21 March 2017 (6,646,667 shares), 27 March 2017 (3,800,000 shares) and 4 April 2017 (3,040,000 shares).

The Group presently has on issue 2,000,000 options to purchase ordinary fully paid shares. The options were issued to the Underwriters of the Initial Public Offering Prospectus dated 28 March 2017 and the associated Supplementary Prospectus dated 12 April 2017.

The options are exercisable at \$0.37 at any time during the period commencing from the date of their issue and expiring on 30 June 2019.

DIRECTORS' REPORT

Remuneration Report

Introduction

Cann's Remuneration Report for the year ended 30 June 2017 (financial year).

Since being admitted to the Official List of the ASX Cann has actively been recruiting a team to ensure the successful implementation of the Company's business plan.

CEO remuneration outcomes

Mr Peter Crock was appointed as Chief Executive Officer commencing as an employee on 1 September 2016 on a salary of \$200,000 plus Superannuation Guarantee. Prior to this date Mr Crock was paid \$55,088 as a consultant to Cann. Mr Crock was also paid a bonus of \$50,000 in May 2017 for development of strategic relationships and the business plan for inclusion in the IPO Prospectus which enabled the Company to successfully list on the Australian Securities Exchange (ASX). Listing on the ASX was the event required to trigger the bonus payment.

It is anticipated that Mr Crock will participate in both Short Term Incentive and Long Term Incentive schemes when they are formalised during the 2018 financial year. Any incentive schemes formulated by the Company will be performance based with determination of success by the Board.

Non-Executive Director remuneration outcomes

The Board resolved that there would be no remuneration of any form paid to Non-Executive Directors for their service as Directors until such time as Cann was admitted to the Official List of the ASX. Non-Executive Directors Fees are set on an annual basis within the limit set by Shareholders at the General Meeting of 19 October 2016. Non-executive Directors Fees were paid for the two months of May and June 2017.

In line with ASX Corporate Governance Principles and Recommendations, Cann has continued Board review activities, including ensuring the Board contains an appropriate mix of skills and experience as well as assessing the independence of each Non-Executive Director.

Remuneration Report

The Directors of Cann Group Limited (Cann or the Company) are pleased to present the Remuneration Report (Report) for the Company and its subsidiaries (Group) for the financial year ended 30 June 2017. This Report has been prepared and audited in accordance with the requirements of the *Corporations Act 2011*.

For the purpose of this Report Key Management Personnel (KMP) are defined as persons having authority and responsibility for planning, directing and controlling major activities of the Group and include all Non-Executive Directors of the Company and Executives who are listed in the table below.

Non-Executive Directors	
Mr Allan McCallum	Chairman
Mr Philip Jacobsen	Deputy Chairman
Mr Geoff Pearce	Non-Executive Director
Mr Doug Rathbone	Non-Executive Director
Mr Michael Murchison	Non-Executive Director (resigned 28 October 2016)

Executives	
Mr Peter Crock	Chief Executive Officer

The above Non-Executive Directors and Executives were the KMP for the whole of the financial year, unless otherwise indicated.

DIRECTORS' REPORT

Remuneration Governance

The Board is responsible for determining Non-Executive Director and Senior Executive remuneration. The Company has not appointed a Remuneration Committee, rather the Board conducts the activities of the Remuneration Committee.

In accordance with section 206K of the Corporations Act 2001, the Board has a process for engaging remuneration consultants. The Board commissions and receives information, advice and recommendations directly from remunerations consultants, ensuring remuneration recommendations are free of undue influence by management.

No consultants were engaged with respect to providing remuneration recommendations for the Non-Executive Directors and Executives during the Financial Year.

Executive Remuneration

Executive remuneration is based on total reward structure comprising fixed remuneration and at-risk remuneration. For the year ended 30 June 2017 at-risk remuneration was made up of Short Term Incentives (STI's) only and was designed to align Executive remuneration with achievement of strategic and financial objectives that lead to the creation of shareholder value. Long Term Incentives (LTI's) will be developed during the 2018 financial year and will be designed to align Executive remuneration with achievement of strategic and financial objectives that lead to the creation of shareholder value.

The reward structure has the strategic objectives of:

- Attracting, retaining and motivating suitably qualified and experienced executives;
- Encouraging a strong focus on performance; and
- Supporting the delivery of outstanding results for the Group over the short and (future) long term.

Fixed Remuneration

The fixed remuneration component of an Executive's total remuneration package is expressed as a total package consisting of base salary and statutory superannuation contributions.

Fixed remuneration reflects the complexity of the individual's role and their experience, knowledge and performance. Internal and external benchmarking is regularly undertaken and fixed remuneration levels are set with regard to the external market median, with scope for incremental increase for superior performance.

Fixed remuneration is reviewed annually on the anniversary dates of the individual's commencement date, taking into account the performance of the individual and the Group. There are no guaranteed increases to fixed remuneration in any contracts of employment.

Short Term Incentive

The STI component of an Executive's total remuneration is an annual cash incentive plan. The STI links a portion of Executive remuneration opportunity to specific financial and non-financial measures.

The performance measures are described in the table above. From a governance perspective, all performance measures under the STI must be clearly defined and measurable. The Board approves the targets and assesses the performance outcome of the CEO. The CEO sets the targets and assesses the performance of other Executives. The Board approves STI payments for the CEO and other Executives. Under the STI plan, the Board has discretion to adjust STI outcomes based on the achievements which are consistent with the Group's strategic priorities and, in the opinion of the Board, enhance shareholder value.

One hundred percent (100%) of awarded STI is paid in cash at a time determined by the Board, however for future years the timing will be upon Board approval of the audited year-end accounts. In future years the financial performance measures will be implemented and then for the Executive's to qualify for a payment of an STI a pre-agreed level of Group profit must first be achieved. Once this has been achieved, the level of payment the Executive receives is determined based on the achievement of their pre-determined financial and non-financial measures.

DIRECTORS' REPORT

Long Term Incentive

The LTI component of an Executive's total remuneration is yet to be determined however it will be an equity incentive plan that is designed to encourage Executives to focus on key performance drivers which underpin sustainable growth in shareholder value. The LTI will facilitate share ownership by Executive's and links a significant proportion of their at-risk remuneration to the Group's ongoing share price and returns to shareholders over the performance period. This will be achieved by motivating and rewarding the Executives to drive share price growth via improvements to Total Shareholder Returns and Return on Invested Capital.

Other Remuneration Disclosures

Non-Executive Director Remuneration

Non-Executive Directors are paid Directors Fees that are treated as salaries with tax withheld and superannuation guarantee paid at statutory amounts. Non-Executive Director Remuneration is not performance based and as such no Non-Executive Director has received performance based remuneration during the year. At the General Meeting of 19 October 2016 Non-Executive Director remuneration was fixed at a total annual aggregate of \$175,000 inclusive of superannuation guarantee. At a Board Meeting held 30 November 2016 it was resolved that Non-Executive Chairman remuneration would be \$30,000 per annum and Non-Executive Director remuneration would be \$20,000 per annum, both exclusive of superannuation guarantee and that Non-Executive Directors would only be paid remuneration after the Company was admitted to the Official List of the Australian Securities Exchange.

Service Agreements

The employment conditions and remuneration of the Executives are formalised in individual contracts of employment. No fixed terms are specified within these employment contracts and the following termination provisions apply:

Executive	Notice Period by Company	Notice Period by Employee
Mr P Crock	4 months	4 months

The Company may terminate an employment contract without cause by providing written notice or making a payment in lieu of the notice period based on the individual's fixed annual remuneration. Each employment contract provides for termination of employment without notice in circumstances sufficient to warrant summary termination.

Transactions with Directors

Mr Michael Murchison and his Director-related entities purchased two subsidiary companies from Cann Group Limited, being Cann Global LLC and Cannproducts NZ Limited. Cannproducts NZ Limited was registered but never operated within the Group. Both subsidiaries were sold to Mr Murchison and his related entities for \$1 each which the Directors believe to be on commercial terms.

Other transactions entered into by the Group with Directors and their Director-related entities are within normal employee, customer or supplier relationships on terms and conditions no more favourable than those available in similar arm's length dealings.

Performance Evaluations of Board and Senior Executives

During the year the Board conducted reviews of the Board itself, its Committees and of Senior Executives which included feedback on performance and training arranged where deemed appropriate.

DIRECTORS' REPORT

Table 1: Remuneration Disclosure for Key Management Personnel of the Group for years ended 30 June 2017 and 30 June 2016

	Short-term Benefits		Post-employment Benefits		Other KMP related payments**	Share-based remuneration***	Total	Performance related %
	Salary and Fees	STI cash bonus	Super-annuation					
	\$	\$	\$	\$	\$	\$	\$	%
2017 Financial Year								
Non-Executive Directors								
Mr Allan McCallum	5,000	–	475	–	–	11,686	17,161	–
Mr Philip Jacobsen	3,650	–	–	–	–	5,843	9,493	–
Mr Douglas Rathbone	3,333	–	317	–	–	6,778	10,428	–
Mr Michael Murchison (resigned 28 October 2016)	103,210	–	–	–	–	3,038	106,248	–
Mr Geoff Pearce	3,333	–	317	–	–	4,207	7,857	–
Subtotal for Non-Executive Directors	118,526	–	1,109	–	–	31,552	151,187	–
Executives								
Mr Peter Crock	194,224	50,000	15,712	–	–	2,921	262,857	19.0%
Subtotal for Executives	194,224	50,000	15,712	–	–	2,921	252,857	19.0%
Total 2017 Financial Year	312,750	50,000	16,821	–	–	34,473	414,044	12.1%
2016 Financial Year								
Non-Executive Directors								
Mr Allan McCallum	8,000	–	760	–	2,086	11,986	22,832	–
Mr Philip Jacobsen	8,000	–	760	–	4,108	5,993	18,861	–
Mr Alberto Mariani (resigned 11 April 2016)	8,000	–	760	–	–	4,315	13,075	–
Mr Michael Murchison	120,000	–	24,785	–	–	51,062	195,847	–
Mr Geoff Pearce (appointed 11 April 2016)	–	–	–	–	–	–	–	–
Mr Douglas Rathbone	8,000	–	760	–	–	959	9,719	–
Subtotal for Non-Executive Directors	152,000	–	27,825	–	6,194	74,315	260,334	–
Executives								
Mr Peter Crock	39,069	–	–	–	–	–	39,069	–
Subtotal for Executives	39,069	–	–	–	–	–	39,069	–
Total 2016 Financial Year	191,069	–	27,825	–	6,194	74,315	299,403	–

Notes:

* Mr Crock FY2017 Salary and Allowances includes a bonus paid of \$50,000 and Mr Murchison FY2016 Salary and Allowances includes a living away from home allowance of \$34,124.

** Interest and Guarantee Fees paid to Mr McCallum and Mr Jacobsen in respect to loans to the Company provided by Mr McCallum and Mr Jacobsen.

*** Vesting charge reflecting change in value of Class B Performance Rights granted or otherwise acquired by KMP. Class A Performance Rights were cancelled effective 1 March 2017 and therefore no vesting charge is included. The Class A Performance Rights were share-based payments when granted and were cancelled with the consent of all of the holders of those Rights.

DIRECTORS' REPORT

Table 2: Shares held by Key Management Personnel of the Group for years ended 30 June 2017 and 30 June 2016

The movement during the reporting period in the number of shares in Cann Group Limited held, directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

2017					
Name	Balance 1 July 2016	Net Change Other*	Issued on conversion of Performance Rights	Issued on exercise of Options	Balance 30 June 2017
Non-Executive Directors					
Mr Allan McCallum	3,840,000	–	1,000,000	640,000	5,480,000
Mr Philip Jacobsen	2,300,000	173,334	500,000	800,000	3,773,334
Mr Douglas Rathbone	1,120,000	173,334	580,000	320,000	2,193,334
Mr Geoff Pearce	520,000	–	360,000	320,000	1,200,000
Mr Michael Murchison	13,600,000	(13,600,000)	260,000	–	260,000
Subtotal for Non-Executive Directors	21,380,000	(13,253,332)	2,700,000	2,080,000	12,906,668
Executives					
Mr Peter Crock	–	86,667	250,000	–	336,667
Subtotal for Executives	–	86,667	250,000	–	336,667
Total	21,380,000	(13,166,665)	2,950,000	2,080,000	13,243,335
2016					
Name	Balance 1 July 2015	Net Change Other*	Issued on conversion of Performance Rights	Net Change Share Split**	Balance 30 June 2016
Non-Executive Directors					
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	180,000	–	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
Subtotal for Non-Executive Directors	4,675,000	670,000	–	16,085,000	21,380,000
Executives					
Mr Peter Crock	–	–	–	–	–
Subtotal for Executives	–	–	–	–	–
Total	4,675,000	670,000	–	16,085,000	21,380,000

Notes:

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

** 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.

DIRECTORS' REPORT

Table 3: Options held by Key Management Personnel of the Group for years ended 30 June 2017 and 30 June 2016

Name	Balance 1 July 2016	Net Change Other*	Exercised	Balance 30 June 2017
Non-Executive Directors				
Mr Allan McCallum	640,000	–	(640,000)	–
Mr Philip Jacobsen	800,000	–	(800,000)	–
Mr Douglas Rathbone	320,000	–	(320,000)	–
Mr Geoff Pearce	320,000	–	(320,000)	–
Total	2,080,000	–	(2,080,000)	–

Name	Balance 1 July 2015	Net Change Other*	Net Change Share Split**	Balance 30 June 2016
Non-Executive Directors				
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

Notes:

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

** 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.

DIRECTORS' REPORT

Table 4: Performance Rights Class A held by Key Management Personnel of the Group for years ended 30 June 2017 and 30 June 2016

Name	Balance 1 July 2016	Net Change Other*	Cancelled***	Balance 30 June 2017
Non-Executive Directors				
Mr Allan McCallum	2,000,000	–	(2,000,000)	–
Mr Philip Jacobsen	1,000,000	–	(1,000,000)	–
Mr Douglas Rathbone	80,000	–	(80,000)	–
Mr Michael Murchison	6,480,000	–	(6,480,000)	–
Total	9,560,000	–	(9,560,000)	–

Name	Balance 1 July 2015	Net Change Other*	Net Change Share Split**	Balance 30 June 2016
Non-Executive Directors				
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

Notes:

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

** 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.

*** Cancelled refers to Class A Performance Rights were cancelled effective 1 March 2017.

DIRECTORS' REPORT

Table 5: Performance Rights Class B held by Key Management Personnel of the Group for years ended 30 June 2017 and 30 June 2016

Name	Balance 1 July 2016	Net Change Other*	Converted to Ordinary Shares	Balance 30 June 2017
Non-Executive Directors				
Mr Allan McCallum	1,000,000	–	(1,000,000)	–
Mr Philip Jacobsen	500,000	–	(500,000)	–
Mr Douglas Rathbone	80,000	500,000	(580,000)	–
Mr Geoff Pearce	–	360,000	(360,000)	–
Mr Michael Murchison	4,260,000	(4,000,000)	(260,000)	–
Subtotal for Non-Executive Directors	5,840,000	(3,140,000)	(2,700,000)	–
Executives				
Mr Peter Crock	–	250,000	(250,000)	–
Subtotal for Executives	–	250,000	(250,000)	–
Total	5,840,000	(2,890,000)	(2,950,000)	–

Name	Balance 1 July 2015	Net Change Other*	Net Change Share Split**	Balance 30 June 2016
Non-Executive Directors				
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

Notes:

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

** 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.

This concludes the Remuneration Report, which has been audited.

DIRECTORS' REPORT

Indemnifying Officers or Auditor

No indemnities have been given however a Directors and Officers insurance premium totalling \$23,977 has been paid, during or since the end of the year, for any person who is or has been an officer of the Group. No indemnities have been given during or since the end of the year for any person who has been an 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 year.

Events after the end of the reporting period

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.

Non-Audit services

The Company's Audit and Risk Committee ("the Committee") is responsible for the maintenance of audit independence. Specifically, the Committee Charter ensures the independence of the auditor is maintained by:

- Limiting the scope and nature of non-audit services that may be provided; and
- Requiring that permitted non-audit services must be pre-approved by the Chairman of the Committee.

During the year William Buck, the Group's auditor, has performed certain other services in addition to the audit and review of the financial statements. The Board has considered the non-audit services provided during the year by the auditor and in accordance with the advice provided by the Committee, is satisfied that the provision of those non-audit services during the year by the auditor is compatible with, and did not compromise, the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- All non-audit services were subject to the corporate governance procedures adopted by the Group and have been reviewed by the Committee to ensure they do not impact the integrity and objectivity of the auditor; and
- The non-audit services provided do not undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants* as they did not involve reviewing or auditing the auditors own work, acting in a management or decision making capacity for the Group, acting as an advocate for the Group or jointly sharing risks and rewards.

Details of the amounts paid to the auditor of the Group, William Buck, for audit and non-audit services provided during the year are set out in Note 5.

DIRECTORS' REPORT

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 19.

CEO and CFO declaration

The CEO and CFO have given a declaration to the Board concerning the Group's financial statements under section 295A(2) of the *Corporations Act 2001* and recommendations 4.2 and 7.2 of the ASX Corporate Governance Council Principles of Good Corporate Governance and Best Practice Recommendations in regards to the integrity of the financial statements.

Corporate Governance Statement

In accordance with Listing Rule 4.10.3 and the Appendix 4G lodged by the Company, the Company's 2017 Corporate Governance Statement can be found on its website <https://www.canngrouplimited.com>

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



Allan McCallum

Chairman

Date: 25 August 2017

AUDITOR'S INDEPENDENCE DECLARATION



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

I declare that, to the best of my knowledge and belief during the year ended 30 June 2017
there have been:

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

William Buck

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

N.S. Benbow

N. S. Benbow
Director

Dated this 25th day of August, 2017

**CHARTERED ACCOUNTANTS
& ADVISORS**

Level 20, 181 William Street
Melbourne VIC 3000
Telephone: +61 3 9824 8555
williambuck.com

William Buck is an association of independent firms, each trading under the name of William Buck across
Australia and New Zealand with affiliated offices worldwide. Liability limited by a scheme approved under
Professional Standards Legislation other than for acts or omissions of financial services licensees.



ANNUAL FINANCIAL STATEMENTS



CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2017

	Note	2017 \$	2016 \$
Other income		8,421	6,662
Administration and corporate costs	3	(1,642,100)	(1,104,217)
Research and development costs	3	(547,782)	(348,923)
Loss before transaction costs, finance costs and income tax expense		(2,181,461)	(1,446,478)
Transaction costs of the IPO		(406,435)	–
Finance costs		(549)	(15,533)
Loss before income tax expense		(2,588,445)	(1,462,011)
Income tax expense		–	–
Loss attributable to members of the Group		(2,588,445)	(1,462,011)
Other comprehensive income		–	–
Total comprehensive loss attributable to members of the Group		(2,588,445)	(1,462,011)
Basic and Diluted Earnings Per Share (EPS)		(0.05)	(0.053)
Weighted Average number of Shares used to calculate EPS*		52,328,805	27,592,420

* The potentially dilutive effects of any contingently issuable ordinary shares have not been considered in the diluted loss per share calculation, because the Group is in a loss-making position and such an effect would be anti-dilutive.

The accompanying notes form part of these statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2017

	Note	2017 \$	2016 \$
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents		11,113,964	1,344,055
Prepayments		133,453	5,519
Stock on hand		24,927	–
TOTAL CURRENT ASSETS		11,272,344	1,349,574
NON-CURRENT ASSETS			
Plant and equipment	6	716,672	486,758
Investments in term deposits		3,000,000	–
Rental bonds		85,000	35,000
TOTAL NON-CURRENT ASSETS		3,801,672	521,758
TOTAL ASSETS		15,074,016	1,871,332
LIABILITIES			
CURRENT LIABILITIES			
Unsecured trade and other payables		389,103	181,849
Lease liability		4,198	–
TOTAL CURRENT LIABILITIES		393,301	181,849
NON-CURRENT LIABILITIES			
Lease liability		20,567	–
TOTAL NON-CURRENT LIABILITIES		20,567	–
TOTAL LIABILITIES		413,868	181,849
NET ASSETS		14,660,148	1,689,483
EQUITY			
Issued capital	8	20,187,092	4,376,271
Performance rights reserve	10	–	515,409
Accumulated losses		(5,526,944)	(3,202,197)
TOTAL EQUITY		14,660,148	1,689,483

The accompanying notes form part of these statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2017

	Issued equity \$	Performance Rights reserve \$	Accumulated losses \$	Total equity \$
Balance at 1 July 2016	4,376,271	515,409	(3,202,197)	1,689,483
Issue of shares	16,485,465	–	–	16,485,465
Costs of issuing shares	(1,037,259)	–	–	(1,037,259)
Vesting of Class B performance rights	–	110,904	–	110,904
Conversion of Class B performance rights and issue of shares	362,615	(362,615)	–	–
Cancellation of Class A performance rights	–	(263,698)	263,698	–
Transactions with owners in their capacity as owners	20,187,092	–	(2,938,499)	17,248,593
Comprehensive loss for the period ended 30 June 2017	–	–	(2,588,445)	(2,588,445)
Balance at 30 June 2017	20,187,092	–	(5,526,945)	14,660,148

	Issued equity \$	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
Transactions with owners in their capacity as owners	4,376,271	515,409	(1,740,186)	3,151,494
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

The accompanying notes form part of these statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2017

	Note	2017 \$	2016 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Other income received		382	420
Payments to suppliers and employees		(2,307,271)	(1,253,428)
Interest received		8,038	6,280
Net cash flows provided used in operating activities	14	(2,298,851)	(1,246,728)
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of plant and equipment		(329,446)	(344,305)
Acquisition of other assets		(50,000)	(35,000)
Investment in term deposits		(3,000,000)	–
Net cash flows used in investing activities		(3,379,446)	(379,305)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issues of shares		15,619,000	2,627,000
Costs of issuing shares		(170,794)	(107,736)
Net cash flows provided by financing activities		15,448,206	2,519,264
Net increase/ (decrease) in cash held		9,769,909	893,231
Cash and cash equivalents at the beginning of the year		1,344,055	450,824
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		11,113,964	1,344,055

The accompanying notes form part of these statements.

NOTES TO THE FINANCIAL STATEMENTS

1. Corporate information

These are the financial statements of Cann Group Limited (the **Company**) and its 100% owned subsidiaries, including Cannproducts Pty Ltd, Cannoperations Pty Ltd, Cann IP Pty Ltd (formerly Anslinger Holdings Pty Ltd) and Botanitech Pty Ltd (formerly Cann Investments Pty Ltd), all incorporated and domiciled in Victoria, Australia (together, the **Group**). Cann Group Limited is an ASX-listed public company incorporated and domiciled in Victoria, Australia. These financial statements are for the year ended 30 June 2017. 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 preparation

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.

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 and there was no material impact arising from the adoption of the new, revised and amending Accounting Standards.

(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 2017 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 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 16 Leases	1 January 2019	1 July 2018

Management have assessed that standards AASB 9: Financial Instruments and related standards and AASB 15: Revenue from Contracts with Customers (and AASB 2014-5 Amendments to Australian Accounting Standards from AASB 15) will not materially impact these financial statements.

Management has assessed that the standard AASB 16: Leases will have a material effect on these financial statements impacting through the capitalisation of right to use leased assets and the corresponding lease liability connected with the current rental arrangement.

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. Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ends when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the Consolidated Statement of Profit or Loss and Other Comprehensive Income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

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 year 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) 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.

(e) Inventory

Plant-based inventory is classified at initial recognition depending upon its specific designated purpose by the Group.

Plants held for research purposes

Plants held for research purposes are expensed as incurred.

Bearer plants

Bearer plants are those which include a range of genetic varieties from which non-bearer plants are propagated from and are maintained to ensure genetic consistency. These are held at cost and incrementally capitalised throughout their life cycle to reflect the cost value of direct and indirect activities undertaken to grow the plants, less any accumulated depreciation or amortization.

NOTES TO THE FINANCIAL STATEMENTS

Non-bearer plants

Non-bearer plants are those which are grown to maturity (flowering) and then the full plant is harvested from which a product will be derived. These plants are recognized as biological assets and are held at fair value less costs to sell, or where fair value cannot be reliably measured, at cost and incrementally capitalized throughout their life cycle to reflect the direct and indirect activities undertaken to grow the plants, provided that such cost plus incremental gain does not exceed their net realizable value.

(f) Research and development

Research and development activities include all costs involved in researching and testing different cultivation methods and equipment in a quest to obtain optimal outcomes with regard to the chemical make-up and quantity of harvested and/or manufactured produce. Research and development activities may include specific experiments that may be registered for the Research and Development Tax Incentive or general research and development activities conducted as part of the Group's general operations. The Group maintains a quantity of both bearer and non-bearer plants specifically under its Cannabis Research Licence for use solely in research and development activities and they are destroyed upon conclusion of those activities.

Research and development costs are expensed as incurred.

(g) 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.

At each reporting date, the Group's directors assess whether there is objective evidence that trade and other receivables have 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 2017, the Group's asset classes had effective useful lives as follows:

Asset Class	Useful Life (years)
Growth facilities	7
Other plant and equipment (includes computer equipment, network equipment, security equipment, leasehold improvements, furniture, cultivation tools and workshop 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 profit or loss and other 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 statement of profit or loss and other comprehensive income.

(l) Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases, net of any incentives received from the lessor, are charged to the Consolidated Statement of Profit or Loss and Other Comprehensive Income on a straight-line basis over the period of the lease.

(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.

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 non-performance based conditions are valued using the Black-Scholes model and 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.

NOTES TO THE FINANCIAL STATEMENTS

(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 – non-recognition of carry-forward tax losses

The balance of future income tax benefit estimated as \$703,351 (2016: \$359,222) arising from current year tax losses of \$2,588,445 (2016: \$1,198,314) and timing differences has not been recognised as an asset because recovery is not regarded as probable. The cumulative future income tax benefit estimated to be \$1,428,739, 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.

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.

Key Judgement – valuation of Underwriter Options

The Underwriter Options issued to Underwriters to the Initial Public Offering received as part of their remuneration for services were independently valued using the Black-Scholes valuation methodology. The data input into the Black-Scholes valuation methodology included the Option tenure period of 2.167 years from grant date of 4 May 2017, a risk-free rate of 1.74% and an expected volatility rate of 80%.

3. Expenses

	2017 \$	2016 \$
Depreciation	(124,297)	(28,917)
Employee salaries	(569,945)	(169,624)
Employee superannuation	(53,147)	(47,154)
Share based payments	(110,904)	(83,904)
Lease expense	(834)	–
Occupancy expenses	(269,690)	(79,754)
	(1,128,817)	(409,353)

NOTES TO THE FINANCIAL STATEMENTS

4. 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 Geoff Pearce	Director
Mr Michael Murchison (resigned 28 October 2016)	Director
Mr Peter Crock	Chief Executive Officer

(b) Remuneration paid to Key Management Personnel

	2017 \$	2016 \$
Short-term employee benefits	362,750	191,069
Post-employment benefits	16,821	27,825
Share-based payments	34,473	74,315
	414,044	293,209

5. Auditor's remuneration

During the year the following fees were paid or payable for services provided by the auditor of Group, its related practices and non-related audit firms:

	2017 \$	2016 \$
<i>(i) Audit and other assurance services</i>		
Audit and review of financial statements	24,000	11,000
Assistance with Due Diligence	1,365	–
Total remuneration for audit and other assurance services	25,365	11,000
<i>(ii) Consulting services</i>		
Consulting fees regarding Research and Development Tax Incentive	800	–
Total remuneration for consulting services	800	–
Total remuneration of William Buck	26,165	11,000

NOTES TO THE FINANCIAL STATEMENTS

6. Plant and equipment

(a) Plant and equipment

	2017			2016		
	Growth Facilities \$	Other plant & equipment \$	Total \$	Growth Facilities \$	Other plant & equipment \$	Total \$
Cost	728,597	141,288	869,855	469,489	46,186	515,675
Accumulated Depreciation	(106,374)	(46,839)	(153,213)	(17,117)	(11,800)	(28,917)
Closing Balance	622,223	94,449	716,672	452,372	34,386	486,758

(b) Movements in plant and equipment

	2017			2016		
	Growth Facilities \$	Other plant & equipment \$	Total \$	Growth Facilities \$	Other plant & equipment \$	Total \$
Opening Balance	452,372	34,386	486,758	171,369	–	171,369
Additions	259,109	95,104	354,213	298,120	46,186	344,306
Depreciation	(89,258)	(35,039)	(124,297)	(17,117)	(11,800)	(28,917)
Closing Balance	622,223	94,451	716,672	452,372	34,386	486,758

During the year Secure Cultivation Rooms 01 and 02 were completed to operational levels and were available for use as at 1 August 2016. Secure Cultivation Rooms 03, 04 and 05 to 07 were in various stages of construction as at 30 June 2017. As at 30 June 2017 the Directors reviewed the overall progress of the Secure Cultivation Rooms and the Directors conducted an impairment test which was applied as at 30 June 2017 whereby the Directors compared the carrying values of all of the Secure Grow Rooms plus the Research & Development / Nursery Room and the Laboratory / Drying Room to the selling values of comparable assets and concluded that no impairment existed relating to these assets.

NOTES TO THE FINANCIAL STATEMENTS

7. Controlled entities

Cann Group Limited has four wholly-owned subsidiaries as at 30 June 2017 as follows:

Subsidiary Name	Principle Activity	Date Acquired	Number of Shares held	Percentage Shareholding
Cannproducts Pty Ltd (ACN 600 887 189)	To market and distribute the Group's medicinal cannabis products.	27 February 2015	100	100%
Cannoperations Pty Ltd (ACN 603 323 226)	To hold all relevant licences and permits required to conduct all operations relating to research and development, cultivation and seed acquisition/importation. Owns all cultivation and other assets used throughout the Group.	27 February 2015	100	100%
Cann IP Pty Ltd (formerly Anslinger Holdings Pty Ltd) (ACN 169 764 407)	To hold all intellectual property for Group members.	27 February 2015	100	100%
Botanitech Pty Ltd (formerly Cann Investments Pty Ltd) (ACN 604 834 488)	To hold any investments undertaken by the Group in the future that are relevant or complimentary to the vertical integration of the Group's business.	18 March 2015	100	100%

During the year the Group disposed of two wholly-owned subsidiaries. Those entities were as follows:

Subsidiary Name	Principle Activity	Date Disposed	Number of Shares held	Percentage Shareholding
Cann Global Inc	Corporate shell	28 October 2016	100	100%
Cannproducts NZ Limited	Corporate shell	23 November 2016	100	100%

Both entities were disposed for the purpose of internally structuring the legal form of the Group. As these transactions only related to the structure of the Group and did not influence its operations, the Directors have assessed that these disposals, sold to related parties for \$1 each at arm's-length terms, did not meet the definition of a business, being corporate shells, and therefore they have not been classified as a discontinued operation in these financial statements.

8. Issued capital

	30 June 2017 Number of Shares	30 June 2016 Number of Shares	30 June 2017 \$	30 June 2016 \$
Ordinary shares – fully paid	108,353,335	39,346,668	20,187,092	4,376,271
Total issued capital	108,353,335	39,346,668	20,187,092	4,376,271

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

Movements in issued capital:

Issue Date	Issue Price \$	Number of Shares and Options	2017 \$
Balance 1 July 2016		39,346,668	4,376,271
29 September 2016 – placement	0.15	320,000	48,000
22 November 2016 – placement	0.15	160,000	24,000
21 February 2017 – placement	0.15	160,000	24,000
31 March 2017 – issued pursuant to exercise of options	0.15	13,486,667	2,023,000
20 April 2017 – issued pursuant to vesting of Performance Rights	–	7,180,000	362,615
3 May 2017 – issued pursuant to Initial Public Offering (net of costs)*	0.30	47,700,000	13,091,206
Total Issued Shares as at 30 June 2017		108,353,335	19,949,092
Total Options on issue**	–	2,000,000	238,000
Total Issued Capital as at 30 June 2017		110,353,335	20,187,092

* Costs of the issue of shares pursuant to the Initial Public Offering are as follows:

Cost	Settlement method			Total \$
	Cash \$	Shares \$	Options \$	
Underwriting fee	–	810,000	238,000***	1,048,000
Legal fees	108,660	–	–	108,660
Corporate advisory, investigating accountant and other consulting fees	103,901	–	–	103,901
Printing and design costs	14,697	–	–	14,697
Total	227,258	810,000	238,000	1,275,258

** Refer Note 9 regarding total number of Options on issue as at 30 June 2017.

*** Included in the Underwriter Fees is an amount of \$238,000 representing the value of 2,000,000 Underwriter Options which the Underwriters to the Initial Public Offering received as part of their remuneration for services. For the Key Judgements regarding the Option valuation refer to Note 2(l).

Issue Date	Issue Price \$	Number of Shares	2016 \$
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	1,880,533
30 June 2016	–	29,510,001	–
30 June 2016 – Costs of issuing shares	–	–	(61,268)
Total Issued Capital as at 30 June 2016		39,346,668	4,376,271

NOTES TO THE FINANCIAL STATEMENTS

9. Options

During the year the Group had two classes of options on issue, being options issued pursuant to the Information Memorandum dated 11 April 2016 and Underwriter Options issued pursuant to the Initial Public Offering Prospectus dated 28 March 2017 (and the Supplementary Prospectus dated 12 April 2017).

Options issued pursuant to Information Memorandum dated 11 April 2016

All options were exercised at fifteen (\$0.15) cents each before the expiration date of 4.00pm (Melbourne, Victoria time) on 31 March 2017.

Issue Date	Issue Price \$	Number of Options
Balance 1 July 2016		12,846,668
29 September 2016*	–	320,000
22 November 2016*		160,000
21 February 2017*		160,000
31 March 2017**	–	(13,486,668)
Balance 30 June 2017		–

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 29 September 2016, 22 November 2016 and 21 February 2017 the Company issued a total of 640,000 Ordinary Shares at fifteen cents (\$0.15) per Share (post share-split) by placements on the same terms as those issued pursuant to the Information Memorandum dated 11 April 2016, hence issuing one attaching Option at no additional cost for each new share subscribed for under those placements.

** On 31 March 2017 the Company issued 13,486,668 Ordinary Shares pursuant to all holders of options exercising all of their options.

*** On 12 May 2016 the Company issued 3,211,667 Ordinary Shares at sixty cents (\$0.60) 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.

Underwriter Options issued pursuant to the Initial Public Offering Prospectus dated 28 March 2017 (and the Supplementary Prospectus dated 12 April 2017)

The Underwriters (or their respective nominees) to the Initial Public Offering were issued 2,000,000 Underwriter Options in the Company. The Underwriter Options will have an exercise price \$0.37 and expire on 30 June 2019.

Refer to Note 2(l) and Note 8 regarding the value of these Options at the date of issue.

The Underwriter Options (and any underlying Shares issued as a result of the exercise of any of these Underwriter Options) will be subject to a 24-month escrow period.

Upon conversion, the underlying Shares issued will be subject to the same rights and liabilities of all other Shares.

NOTES TO THE FINANCIAL STATEMENTS

Issue Date	Issue Price \$	Number of Options
Balance 1 July 2016		–
Issued 2 May 2017	–	2,000,000
Balance 30 June 2017		2,000,000

10. Performance Rights

The Company has no Performance Rights on issue as at 30 June 2017. The Performance Rights Reserve reflects the vesting of the fair value of Performance Rights, which were issued by the Group prior to the IPO and of which all were either cancelled or converted by the completion of the IPO. Performance Rights solely with market conditions which were cancelled were taken directly to accumulated losses and not recycled through profit and loss.

Movement in Performance Rights Reserve

PERFORMANCE RIGHTS CLASS A		
Date	Number of Performance Rights	2017 \$
Balance 1 July 2016	11,000,000	263,698
1 March 2017*	(11,000,000)	(263,698)
Balance 30 June 2017	–	–

* On 1 March 2017 all Performance Rights Class A were cancelled with the agreement of all holders and was credited to the Statement of Profit or Loss and Other Comprehensive Income.

PERFORMANCE RIGHTS CLASS A		
Date	Number of Performance Rights	2016 \$
Balance 1 July 2015	11,000,000	263,698
Balance 30 June 2016	11,000,000	263,698

NOTES TO THE FINANCIAL STATEMENTS

10. Performance Rights (continued)

PERFORMANCE RIGHTS CLASS B		
Date	Number of Performance Rights	2017 \$
Balance 1 July 2016	7,000,000	251,711
1 July 2016**	180,000	21,600
20 April 2017 [^]	–	89,304
20 April 2017 ^{^^}	(7,180,000)	(362,615)
Balance 30 June 2017	–	–

** On 1 July 2016 180,000 Performance Rights Class B were issued to contractors to the Group.

[^] Vesting of Performance Rights Class B to conversion due to increase in probability of conversion milestone being achieved attributed to the Statement of Profit or Loss and Other Comprehensive Income.

^{^^} On 20 April 2017 all Performance Rights Class B were converted into Ordinary Shares, having fulfilled the vesting requirements, being the milestone of the Company applying to be admitted to the Official List of the ASX. Refer Note 8 Issued Capital.

CLASS B		
Date	Number of Performance Rights	2016 \$
Balance 1 July 2015	7,000,000	167,807
30 June 2016 ^{^^^}	–	83,904
Balance 30 June 2016	7,000,000	251,711

^{^^^} Vesting of Performance Rights Class B during year due to increase in probability of conversion milestone being achieved attributed to the Statement of Profit or Loss and Other Comprehensive Income.

NOTES TO THE FINANCIAL STATEMENTS

11. Related party information

	2017 \$	2016 \$
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:		
All shares in Cann Global LLC were transferred from Cann Group Limited to Mr Michael Murchison on an arm's-length basis	1	–
All shares in Cannproducts NZ Limited were transferred from Cann Group Limited to entities associated with Mr Michael Murchison on an arm's-length basis	1	–
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
Purchase of office equipment and furniture from Odd Couple Productions Pty Ltd, a company of which Mr Michael Murchison is a Director and shareholder.	1,500	24,495
	1,502	101,095

12. Contingent liabilities and commitments

The Company has a bank guarantees of \$35,000 and \$50,000 for the operating premises lease of the Company's Southern and Northern premises respectively. With the exception of these bank guarantees, the Company currently has no contingent liabilities or commitments at the date of signing this report.

13. Events after the end of the reporting period

There were no other matters or circumstances arising 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

14. Cash flow information

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

	2017 \$	2016 \$
Profit/(loss) for the year	(2,588,445)	(1,462,011)
<i>Non-cash flows in profit</i>		
Vesting of performance rights Class B	110,904	83,904
Depreciation	124,297	28,917
<i>Movements in working capital</i>		
(Increase)/decrease in trade receivables and other assets	(127,934)	(1,558)
(Decrease)/increase in trade and other payables	207,254	104,021
(Increase)/decrease in stock on hand	(24,927)	–
Net cash outflows from operating activities	(2,298,851)	(1,246,728)

15. Leases

Operating Leases

On 3 March 2017 the Group entered into an operating lease for premises known as the Northern Facility for a period of three years commencing 1 April 2017. As disclosed in the 2016 Annual Report the Group had entered into an operating lease for premises at the Southern Facility with the term of the lease being three years and six months and which allows for two further terms of three years each. Both Facilities are located in Melbourne, Victoria.

Operating lease commitments are:

Period	2017 \$	2016 \$
Less than 12 months	518,021	110,000
From one to five years	834,138	183,333
	1,352,159	293,333

NOTES TO THE FINANCIAL STATEMENTS

Finance Lease

On 24 May 2017 the Group entered into a finance lease with Crown Equipment Pty Ltd trading as Crown Credit for lifting equipment known as a walkie stacker.

Finance lease commitments are:

Period	2017 \$	2016 \$
Less than 12 months	4,198	–
From one to five years	20,567	–
	24,765	–

16. Financial risk management

The consolidated Group's material financial instruments consist of deposits with banks and its accounts payable and other liabilities. 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.

Liquidity risk arises from the possibility that the Group may encounter difficulty in meeting its obligations for its financial liabilities, which at 30 June 2017 were accounts payable with due terms from 0 – 45 days.

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.

17. 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 2017 the Group held no material commercial borrowings or material facilities for credit as the board considered that, at this point of time, that funds sourced through equity would be most appropriate. The Group's Chief Financial Officer 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.

18. Segment information

The Group operates in one segment being the medicinal cannabis industry with operations only in Australia.

NOTES TO THE FINANCIAL STATEMENTS

19. Parent entity disclosures

Financial Position	2017 \$	2016 \$
Assets		
Current assets	16,911,629	1,378,747
Non-current assets	25,314	1,693,207
Total assets	16,936,943	3,071,954
Liabilities		
Current liabilities	227,298	157,662
Non-current liabilities	20,567	–
Total liabilities	247,865	157,662
Equity		
Issued capital	20,187,092	4,376,270
Reserves	–	515,409
Accumulated losses	(3,498,014)	(1,977,417)
Total equity	16,689,078	2,914,262
Financial Performance	2017 \$	2016 \$
Loss for the year	(1,784,294)	(930,503)
Other comprehensive income	–	–
Total comprehensive loss	(1,784,294)	(930,503)

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 22 to 40 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 2017 and of the performance for the year ended 30 June 2017 of the consolidated group.
2. The Chief Executive Officer and Company Secretary have each declared that:
 - a. the financial records of the Company for the year ended 30 June 2017 have been properly maintained in accordance with section 286 of the *Corporations Act 2001*;
 - b. the financial statements and notes for the year comply with the Accounting Standards; and
 - c. the financial statements and notes for the year 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: 25 August 2017

INDEPENDENT AUDITOR'S REPORT



Independent auditors report to the members of Cann Group Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Cann Group Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2017, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information, and the directors' declaration.

In our opinion, the accompanying financial report of the Group, is in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the Group's financial position as at 30 June 2017 and of its financial performance for the year then ended; and
- (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

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

INDEPENDENT AUDITOR'S REPORT



Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Disclosures of Key Management Personnel Remuneration	
<p>Refer also to note 4 of the attached financial report and the remuneration report</p> <p>Key management personnel and directors of the Group have standing remuneration arrangements, which include both cash-based remuneration and share-based payments arrangements. Upon the IPO, members of key management personnel exercised options over shares held in the Company.</p> <p>As the Company is newly listed, this is the first year in which it will prepare a Remuneration Report which will feature in the Directors' Report attached to the financial statements. This is a new level of disclosure of the Company's arrangements with its key management personnel, and as such, has an elevated risk.</p>	<p>How our audit addressed the area of focus</p> <p>Our audit procedures included:</p> <ul style="list-style-type: none"> - An assessment of the Group's controls to identify and disclose key management personnel remuneration and related party transactions in accordance with AASB 124 and the Corporations Act 2001 (ss.208-216); - Identifying who are members of key management personnel and their related parties as provided by the Company and verifying these to external sources; - Conducting an ASIC search for external directorships held by the Board; members to evaluate whether all related party relationships and transactions had been appropriately identified and disclosed, including those that relate to remuneration of key management personnel through interposed entities; - Assessing whether the quantum and disclosures of key management personnel remuneration meets the Company's corporate governance standards as published on the Company's website; - Reconciling key management personnel remuneration to payroll records, specific expenditure accounts, movements in accrued leave and incentives and the accrual of share-based payments; and - Reconciling movements in equity balances, particularly the exercise of options, to ensure that any dilution in the Company's share capital was appropriately accrued to their remuneration.

INDEPENDENT AUDITOR'S REPORT



Valuation of Plant Inventory	
<p>Refer also to note 2(e) of the attached financial report</p> <p>The Group has bearer and non-bearer plants which it is growing for the following uses:</p> <ul style="list-style-type: none"> - Propagation; - The cultivation of cannaboid oil to customers; and - Research and development. <p>This is the first year that the Group has recorded this Plant inventory in its financial statements.</p> <p>The accounting policies set out in the financial report make clear what is and what is not a bearer plant, and in-particular, the relevance of this to their accounting treatment in the financial report. The accounting standards also set out that plants held for research and development purposes are charged to the profit or loss and are not capitalised.</p> <p>Although not a quantitatively significant balance in this financial report, the Group intends to continue to execute its strategy so the accuracy of the accounting policy established will be very relevant to financial statements in subsequent periods.</p>	<p>How our audit addressed the area of focus</p> <p>Our audit procedures included:</p> <ul style="list-style-type: none"> - A review of the appropriateness of the accounting policies for bearer and non-bearer plants, in-compliance with Australian Accounting Standards and Interpretations (specifically AASB 116 and AASB 141); - A supervised stocktake of all of the plants held in the facilities of the Group, establishing a clear delineation between those plants classified as bearer plants, those classified as non-bearer plants and those held for research and development in support of the accounting policy; and - We assessed the costing models for both bearer and non-bearer plants to ensure an element of sophistication that incorporates the following: a) the purchase of the original plants for propagation or for sale; and b) the capitalisation of costs directly or indirectly attributable to bearer and non-bearer plants, relative to their economic life cycle. <p>We have also assessed the adequacy of disclosures in the notes to the financial report.</p>

Other Information

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2017, but does not include the financial report and the auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

INDEPENDENT AUDITOR'S REPORT



Responsibilities of the Directors 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 preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

INDEPENDENT AUDITOR'S REPORT



We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in the directors' report accompanying these financial statements for the year ended 30 June 2017.

In our opinion, the Remuneration Report of Cann Group Limited, for the year ended 30 June 2017, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

A handwritten signature in blue ink that reads 'William Buck'.

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

A handwritten signature in blue ink that reads 'N. Benbow'.

N. Benbow
Director

Dated this day 25th of August, 2017

SHAREHOLDER INFORMATION

Equity security holders

As at 23 August 2017 the Company had 108,353,335 ordinary shares on issue. Further details of the Company's equity securities are as follows:

Largest holders

The following table shows the 20 largest registered shareholders as at 23 August 2017 (as named on the register of shareholders):

Rank	Name	23 Aug 2017	% of Issued Shares
1	AURORA CANNABIS INC	21,562,314	19.90
2	MULLACAM PTY LTD <ATF THE MCCALLUM FAMILY SUPER FUND>	5,480,000	5.06
3	WEXFORD RISE PTY LTD <WEXFORD RISE SUPER FUND>	4,533,334	4.18
4	CROFTON PARK DEVELOPMENTS PTY LTD <THE BROUGHAM SUPERANNUATION FUND>	4,284,099	3.95
5	MR PHILIP JACOBSEN & MRS MAXINE JACOBSEN <THE JAYESS S/F>	2,966,667	2.74
6	CG NOMINEES (AUSTRALIA) PTY LTD	2,540,000	2.34
7	UBS NOMINEES PTY LTD	2,332,201	2.15
8	CANACCORD GENUITY (AUSTRALIA) LIMITED	2,025,000	1.87
9	GRAPEFULL PTY LTD <ATF THE GRAPEFULL SUPER FUND>	2,020,000	1.86
10	MR RAYMOND THOMAS HOBSON & MRS RHONDA ELLEN HOBSON	2,005,000	1.85
11	ELLERSTON CAPITAL LIMITED <RE OF THE GLOBAL EQUITY MANAGERS FUND>	2,000,000	1.85
12	CITICORP NOMINEES PTY LIMITED	1,674,888	1.55
13	HARDMAIL PTY LTD	1,600,000	1.48
13	MR ALLAN WAYNE ROHDE & MRS LYNDEL MARGARET ROHDE <THE LYNAL SUPER FUND A/C>	1,600,000	1.48
13	MR ALLAN WAYNE ROHDE	1,600,000	1.48
14	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	1,421,581	1.31
15	INTERDALE PTY LTD <MAPLE SUPER FUND>	1,350,000	1.25
16	MR ED STEVEN MOROZ	1,328,138	1.23
17	LEIBLER NOMINEES PTY LTD <THE KIRRAMA>	1,050,000	0.97
18	CG NOMINEES (AUSTRALIA) PTY LTD	1,040,000	0.96
19	EGEA PTY LTD	1,000,000	0.92
19	AUSTRALIAN BUSINESSPOINT PTY LTD	1,000,000	0.92
19	TALMETAL PTY LTD	1,000,000	0.92
19	MR GEOFFREY LLOYD NALDER	975,667	0.90
20	STARWAY CORPORATION PTY LTD <THE GILES SUPERANNUATION FUND>	900,000	0.83
	Total	69,288,889	63.95
	Balance of register	39,064,446	36.05
	Grand total	108,353,335	100.00

SHAREHOLDER INFORMATION

Substantial shareholders

The following table shows the substantial holders as notified to the Company in substantial holding notices as at 23 August 2017:

Name	Noted Date of Change	Number of Equity Securities	Relevant Interest
AURORA CANNABIS INC	03/05/2017	21,562,314	19.90%
MULLACAM PTY LTD <ATF THE MCCALLUM FAMILY SUPER FUND>	03/05/2017	5,480,000	5.06%

Distribution of equity securityholders

Holdings distribution

Range	Number of equity security holders	
	Ordinary shares	Options
100,001 and over	94	2
10,001 to 100,000	393	-
5,001 to 10,000	302	-
1,001 to 5,000	761	-
1 to 1,100	435	-
Total	1,985	2

Unmarketable Parcels

The number of security investors holding less than a marketable parcel of 437 securities (\$1.145 on 23 August 2017) is 43 and they hold 13,581 securities.

Voting Rights

The voting rights attaching to each ordinary shares are that holders of ordinary shares have the right to vote at every general meeting of the Company. At a general meeting every holder of ordinary shares present in person or by proxy has, on poll, one vote for each ordinary share held.

Unquoted equity securities

Cann Group Limited has 2,000,000 unquoted underwriter options on issue at 23 August 2017.

Securities exchange

The Company is listed on the Australian Securities Exchange. The home exchange is Melbourne.

Other information

Cann Group Limited, incorporated and domiciled in Australia, is a publicly listed company limited by shares.

