



CANN
GROUP LIMITED

Annual Report 2018

Our business is science...

CONTENTS

| | |
|-----|---|
| 2 | BUSINESS MODEL AND THE INDUSTRY VALUE CHAIN |
| 4 | MESSAGE FROM CHAIRMAN AND CHIEF EXECUTIVE OFFICER |
| 6 | OPERATIONS REVIEW |
| 10 | DIRECTORS' REPORT |
| 22 | AUDITOR'S INDEPENDENCE DECLARATION |
| 23 | CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME |
| 24 | CONSOLIDATED STATEMENT OF FINANCIAL POSITION |
| 25 | CONSOLIDATED STATEMENT OF CHANGES IN EQUITY |
| 26 | CONSOLIDATED STATEMENT OF CASH FLOWS |
| 27 | NOTES TO THE FINANCIAL STATEMENTS |
| 41 | DIRECTORS' DECLARATION |
| 42 | INDEPENDENT AUDITOR'S REPORT |
| 47 | SHAREHOLDER INFORMATION |
| IBC | CORPORATE DIRECTORY |

CORPORATE INFORMATION

These are the full financial statements of Cann Group Ltd (the Company) and its 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 2018. Unless otherwise stated, all amounts are presented in \$AUD.

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

DIRECTORS

Mr Allan McCallum (Chairman)

Mr Philip Jacobsen (Deputy Chairman)

Mr Douglas Rathbone

Mr Geoffrey Pearce

Mr Neil Belot (appointed 26 February 2018)

...our product is quality of life

Cann Group aims to improve the quality of life for people with chronic medical conditions that can be more effectively managed or treated with medicinal cannabis.

We take a science-based approach to developing safe, innovative and effective treatments that seek to benefit each patient's personal experience of wellness.



BUSINESS MODEL AND THE INDUSTRY VALUE CHAIN

After listing on the ASX in May 2017, Cann Group has established itself as a leader in the quickly evolving medicinal cannabis industry in Australia.

The company is pursuing a fully integrated business model, with resources and capabilities spanning research & development; cultivation & production; manufacturing; packaging & distribution; clinical evaluation; and distribution/supply to patients in both Australia and in export markets where a legal framework exists for medicinal cannabis treatment.

A FULLY INTEGRATED BUSINESS MODEL BUILT FOR GROWTH

CANN'S COMPETITIVE STRENGTHS LIE IN THESE SEGMENTS OF THE VALUE CHAIN...



- Accessing and storing elite genetics and tissue culture program
- Developing 'next generation' cannabis strains
- Internal R&D capabilities supplemented with key partnerships & collaborations

- Secure indoor grow rooms and glasshouse cultivation facilities
- Ongoing programs to establish optimised growing conditions
- Expansion program underway involving new ≈ \$100m facility

- Leading extraction & analysis technology
- Formulations and delivery systems
- Value-added and higher margin treatments in development
- Robust GMP manufacturing standards

In the 2018 financial reporting period, Cann Group has secured positions across the full value chain, through its own investments and via important collaborations and partnerships that will add significant value to the company's business plans.

...WITH A CLEAR PATHWAY TO SECURE INVOLVEMENT IN THESE SEGMENTS

PACKAGING & DISTRIBUTION

Clinical Evaluation/End Use Demand

- Active Medicinal Cannabis Medicines Portal
- License to Wisp Vaporiser
- High volume export capability
- Evolving clinical trial program
- Medical education and community awareness initiatives



The Olivia Newton-John Cancer Research Institute is integrated within the ONJ Cancer Centre and is a leader in the development of immunotherapies, targeted therapeutics and personalised cancer medicine.

Our research laboratories are only metres away from where patients are cared for and receive treatment. This inspires, and enables the rapid translation of scientific discovery into clinical trial of new and better cancer treatments.

Olivia Newton John's personal experience has made her a strong advocate for the legalised use of medicinal cannabis to help treat cancer-related pain. Cann Group is working with the ONJ to explore opportunities to undertake clinical research that will help establish the benefits of medicinal cannabis treatment and optimum treatment regimes.



MESSAGE FROM CHAIRMAN AND CHIEF EXECUTIVE OFFICER



...The past 12 months was particularly important in relation to the Company securing the necessary licences and permits that govern our various research, cultivation, manufacturing and import/export activities...

Dear Shareholders,

The 2018 financial year – our first full year as a publicly listed company – encompassed a period of important and positive progress as we continued to lay the foundations for a robust and profitable business that will generate long term value for our stakeholders.

Our strategy involves a strong science-based focus on securing the capabilities and resources to develop safe, innovative and effective medicinal cannabis treatments that make a meaningful difference to quality of life. We are achieving this through ongoing investment in building the skills of our own people; expanding our facilities; and entering into partnerships and collaborations that provide access to new technology and complement our in-house capabilities.

The past 12 months was particularly important in relation to the Company securing the necessary licences and permits that govern our various research, cultivation, manufacturing and import/export activities. We have worked closely with the Federal Government's Office of Drug Control to ensure our facilities and procedures meet the relevant requirements. While the period saw a large number of many new operators in the sector apply for licensing approvals, Cann Group remains one of relatively few companies that have secured both the licences and, critically, the permits, that allow us to continue to execute on our business plan.

As with any new industry – and particularly those that are closely regulated – it will take some time for Government to optimise the processes and provide all of the necessary resources to ensure those processes are undertaken on an efficient basis. We will continue to support the Government's efforts in that regard.

During the year, we completed expansion works at our Southern facility and commissioned our new, larger Northern facility. While the Northern facility provides expanded cultivation space, we are focusing our activities at Northern on a genetics and tissue culture program that will yield valuable new cannabis strains for future product development.

We also announced our stage 3 expansion, which will involve a state-of-the-art green field development including glasshouse cultivation space, research and development laboratories and full GMP manufacturing facilities.

The 37,000m² development will be located at the Melbourne Airport precinct, with an MOU having been signed with Australian Pacific Airports (Melbourne) Pty Ltd this past June. The project is in design phase, with a commissioning of the initial works targeted in July 2019.

The relationships and partnerships we have formed over the reporting period will prove invaluable as we continue to build the business. We are collaborating with a range of organisations that provide access to critical skills, technology and experience. These include La Trobe University; Agriculture Victoria; CSIRO; and several medically focused organisations that will help facilitate further clinical evaluation of treatments.

We have also strengthened our relationship with our strategic shareholder, Aurora Cannabis Inc (Canada). While this has been formalised via an important Technical Services Agreement, Aurora's involvement and support extends well beyond the scope of that agreement as we continue to draw on their industry experience and know-how.

Our own team has expanded considerably over the period. We now have a committed group of some 40 employees who are making a tremendous contribution to the growth of the Company. Their efforts are appreciated.

While the past year has seen a necessary focus on planning and building-out our R&D, cultivation and product development base, we are now expanding our focus to cover clinical evaluation; product distribution and other commercial aspects of the business.

Australia remains the primary focus for the business and we welcome the continuing discussions on streamlining access for patients in this country. We are also actively pursuing opportunities to export our products to overseas markets that have legalised medicinal cannabis.

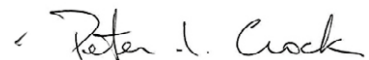
With strong shareholder support for a major capital raising completed during the year, the company is in a sound financial position to continue with our expansion plans.

The Company has established itself as a leader in the quickly evolving Australian medicinal cannabis industry and we are proud of what has been achieved in a relatively short time.

Yours sincerely



Allan McCallum
Chairman



Peter Crock
Chief Executive Officer

OPERATIONS REVIEW

Production

Cann Group Limited (“Cann”) started harvesting medicinal cannabis at its Southern facility in Melbourne in August 2017. The production process included curing and drying harvested material; samples sent for analysis to allow processes to be validated; and the propagation of new crops at the facility.

Cultivation and harvesting operations continued successfully during the year, with Cann harvesting numerous crops during the period.

Facilities

Early in the year, the Company added capacity at its Southern facility with four new secure cultivation rooms, an additional drying room and a secure storage room.

We commissioned the Northern cultivation and research facility in Melbourne in December. The Northern facility features greenhouse cultivation areas and adjoining laboratory/research facilities. The cultivation areas are configured as a series of individual cultivation compartments, allowing the separation of different cannabis varieties during cultivation and harvest.

While this facility provides expanded cultivation space, it is currently focused on accommodating our genetics and tissue culture programs.

The official commissioning of the Northern facility followed the receipt of a relevant permit from the Office of Drug Control (ODC) in October. We were eligible for the new permit under our cultivation licences for medicinal and research purposes, which were varied by the ODC to include the Northern Facility.

In June 2018, we signed a Heads of Agreement with Australia Pacific Airports (Melbourne) Pty Ltd (APAM), securing the site of the Company’s Stage 3 facility. Under the lease arrangement, APAM will fund and undertake the primary build of the 37,000m² facility, representing a multi-million-dollar contribution to the project. The state-of-the-art green field development will incorporate glasshouse cultivation space, laboratories, and a GMP manufacturing facility.

Aurora Larssen Projects (ALPS), a specialist greenhouse engineering consultancy providing technical consulting to the greenhouse industry worldwide, is designing the facility.

Upon completion of the construction, Cann – with the support of ALPS – will complete the fit-out and technology deployment required at the facility. The total business case investment is estimated at \$100 million, with the facility expected to employ approximately 170 staff.

Under the heads of agreement, we are permitted to operate cultivation, manufacturing, warehousing and distribution of medicinal cannabis, and are responsible for obtaining all necessary government approvals. The details set out in the agreement for lease are subject to the approval of the APAM board which must be obtained prior to the execution of the formal lease documents.

We are continuing to make progress on the Project Tullamarine detailed design phase. Completion of the first glasshouse is targeted for July 2019, with cultivation to start following its completion.

The Company has also had initial discussions with several parties regarding future offtake and expects to make announcements regarding this in due course.

Regulatory

In October 2017, Cann was granted a licence to import and/or export cannabis genetics and medicinal cannabis products by the Australian Government Department of Health, through the Office of Drug Control (ODC). As a holder of this licence, the Company can apply for a permit to export raw cannabis material and cannabis oil for analytical testing.

The Company intends to utilise the analytical services of Anandia Laboratories in Canada to complement the capabilities available to the Company in Australia. The licence also allows Cann to apply for a permit to import cannabis genetics and medicinal cannabis products from legal international sources.

We have worked closely with our strategic shareholder in Canada, Aurora Cannabis, and Anandia Laboratories to identify suitable genetics and medicinal cannabis products for inclusion in import permit applications which have now been granted by the Australian Government.

OPERATIONS REVIEW (CONTINUED)

Cann's import/export licence was followed by an announcement from the Australian Government on 4 January 2018 that Australian producers of medicinal cannabis would be permitted to export product to overseas markets. This is expected to lead to further investment in the Australian industry and provide local companies with an incentive to accelerate their development plans.

In February, the Company announced it had received two new licences from the Office of Drug Control to enable continuation of our cultivation and production of cannabis for research and medicinal purposes. The Company was required to reapply to the ODC as per current legislation, because the initial licences were issued for a set term of 12 months.

Cann also received the corresponding permits to these licences, including permits for cultivation relating to research activity, for the maintenance and use of mother plants and – importantly – for cultivation and product for supply for therapeutic purposes.

Securing the licences and permits demonstrated Cann's capability as a reliable medicinal cannabis producer during 2017, having successfully completed multiple harvests of material, and aiming to scale up our production during the 2018 calendar year. The permits also allowed us to continue our research and work with partners including La Trobe University, Aurora Cannabis, Agriculture Victoria, CSIRO and Anandia Labs.

In March, we announced we had secured export permits from Health Canada, to accompany our import permits from the drug control section of the Therapeutic Goods Administration, enabling the Company to initiate the import of genetics and cannabis oils from our Canadian partners.

The receipt of these permits also enabled Cann to begin importing tissue culture from Aurora Cannabis and Anandia Labs in the June quarter. While the material has arrived in Australia, it is still undergoing quarantine screening by the Australian Department of Agriculture and Water Resources.

The importation of this material will allow Cann to establish a bank of various genetics, facilitating research into the suitability of particular strains for certain therapeutic applications. In addition, by fostering a plant breeding program, we will establish surety around the supply of material moving forward and broaden this supply beyond the limited locally available and legally approved genetics.

The import permits for cannabis oil allowed the Company to import four products developed by Aurora Cannabis to Australia, which will be made available to medical practitioners seeking to provide medicinal cannabis to patients under the Special Access Scheme or Authorised Prescriber Scheme. Cann received the first shipment of oil in the June quarter, and we have subsequently announced that the first patients have been supplied, following specific patient-product approval through the Therapeutic Goods Administration's Special Access Scheme.

Partnerships and Research

In July 2017, Cann announced the execution of a Technical Services Agreement with Aurora Cannabis Inc, Canada's second largest publicly listed medicinal cannabis producer and the first company to establish purpose-built cultivation facilities in Canada.

Aurora is a 22.9% shareholder of Cann, taking a cornerstone investment position in the company's IPO and participating in Cann's capital raising in December 2017.

The Agreement, which extends to the end of 2022, is facilitating an exchange of information and support across areas including the cultivation and processing of medical cannabis; extraction and manufacturing technology; and analysis of cannabis extracts.

Canada has a well-established medical cannabis industry, and Aurora is incorporating industry-leading technology into its new 800,000sq ft facility in Edmonton. The Aurora connection provides an opportunity for Cann to expand our knowledge and expertise as we grow our position as a leader in Australia's fledgling medicinal cannabis market.

Post year-end, in August 2018, we announced the signing of an MOU with Agriculture Victoria to undertake further medicinal cannabis research.

OPERATIONS REVIEW (CONTINUED)

Cann and Agriculture Victoria have outlined several common areas of interest which will be pursued under a set of Research Projects. Areas of focus will include activities relating to medicinal cannabis cultivation, production and extraction, cannabis strain genome analysis and strain identification, accelerated precision breeding and development of novel and designer medicinal cannabis strains that will add to Cann's intellectual property portfolio.

The Research division of Agriculture Victoria is part of the Victorian Government's Department of Economic Development, Jobs, Transport and Resources (DEDJTR).

Cann has also supplied a quantity of medicinal cannabis biomass to Agriculture Victoria to be used for research purposes.

In the June quarter, Cann announced plans to expand our research and development operations with La Trobe University, signing a memorandum of understanding that strengthens the relationship between the parties.

The MOU is a precursor to a strategic relationship agreement whereby Cann and La Trobe can enhance its capabilities across research, teaching and knowledge related to the medicinal cannabis industry.

Product development and patient access

In September 2017, Cann Group (through our wholly-owned subsidiary Cannproducts Pty Ltd) announced it was a partner in the Medicinal Cannabis Medicines Portal to facilitate streamlined medicinal cannabis prescribing and dispensing in Australia.

The Portal is a platform that will allow collaboration between prescribers, pharmacists and sponsor manufacturers to help patients access appropriate medicinal cannabis treatment in line with national and state/territory-based laws and requirements. It also provides logistics support for pharmacy wholesaler ordering and pharmacy dispensing.

Subsequent to year end, the Company announced that the first patients had been approved through the Therapeutic Goods Administration's Special Access Scheme to begin treatment with a medicinal cannabis product supplied by Cann Group.

The product – an ingestible oil containing a 1:1 ratio of THC and CBD – is produced by Aurora Cannabis in Canada and imported into Australia by Cann Group.

We will be importing additional supplies of cannabis oil from Aurora in several different formulations, with patients granted access after having been approved for treatment through the TGA's Special Access Scheme or Authorised Prescriber Scheme.

The supply of product to patients in Australia marks an important milestone in our plans to be a fully integrated medicinal cannabis company.

In August 2017, we executed a licencing and distribution agreement with CannaKorp, Inc. to import and sell CannaKorp's proprietary 'Wisp' vaporising system as well as securing the right to produce the medicinal cannabis pods associated with the device.

CannaKorp is a Massachusetts-based technology company simplifying and improving the inhalation process for medicinal cannabis patients. It has designed and developed vaporisation technology which incorporates a desktop vaporiser device that accepts single-use pods containing precisely prepared ground cannabis.

Under the terms of the agreement Cann, through our wholly-owned subsidiary Cannproducts Pty Ltd, is granted a licence to import and sell the system in Australia and New Zealand, as well as manufacturing rights which includes an initial nine-month exclusive right following regulatory approvals.

Intended sales of the system and pods will be subject to obtaining all necessary regulatory approvals, with CannaKorp and Cann working collaboratively to obtain these.

This delivery system will initially be produced by our manufacturing partner, IDT Australia Limited, with whom we executed a manufacturing agreement subsequent to year end.

IDT has been contracted to provide manufacturing support in relation to medicinal cannabis-based product formulations intended for supply to patients in Australia and overseas.

OPERATIONS REVIEW (CONTINUED)

IDT's capabilities and experience in working with leading pharmaceutical companies make it an excellent manufacturing partner and we look forward to developing a range of delivery systems and dosage forms that can meet the varying needs of patients who can benefit from medicinal cannabis treatments.

On the clinical trial front, the Company continues to work with a range of organisations to assess appropriate trial opportunities that we can support. These include the Olivia Newton-John Cancer Wellness and Research Centre in Melbourne and its associated Research Institute, which has a strong interest in this area.

Corporate

Capital raising

Cann announced in late November 2017 a fully underwritten \$60 million institutional share placement and fully underwritten \$10 million Share Purchase Plan (SPP). Once completed, the total raised was approximately \$78 million at a price of \$2.50 per share.

Proceeds from the capital raising are funding the Company's accelerated growth plans which includes the construction of its Stage 3, large-scale cultivation facility and full GMP manufacturing capabilities. The Stage 3 expansion will allow additional involvement in, and support for, clinical trial activity, and further development of product manufacturing capabilities. Further expansion plans will progress as demand for medicinal cannabis continues to build.

Major shareholder Aurora Cannabis Inc (Aurora) participated fully in the placement and the Company issued new placement shares to Aurora, increasing its shareholding from 19.9% to 22.9%.

Change of Registered Office

During the December quarter, Cann's corporate and registered office moved to La Trobe University's Technology Enterprise Centre (TEC) in Bundoora, Victoria.

Post year-end, Cann announced it had relocated its corporate headquarters to be within the Walter and Eliza Hall Institute of Medical Research at La Trobe, enabling continuation of its rapid expansion.

Board, Management and Staff

On 1 March 2018, Cann announced the appointment of Aurora Cannabis Chief Global Business Development Officer Neil Belot as a Director of the Company, following Aurora's participation in Cann's capital raising in which it increased its holding to 22.9%.

Cann also recruited new staff during the year, including Quality Assurance staff, taking total number of employees to more than 40.

S&P/ASX Indices rebalance

During the March quarter, Cann was added to the S&P ASX All Ordinaries Index, with the inclusion becoming effective as of 19 March 2018.

Outlook

Looking ahead to the 2019 reporting period, the Company is committed to maintaining strong momentum.

We are continuing to strengthen the capabilities of our own team and we will secure meaningful value from the partnerships we have established.

By the end of the period, construction on our Phase 3 expansion facility will be well underway.

We also expect to have progressed the development of a range of new dosage forms, suitable for patients in Australia and in overseas markets. Having already secured our export licence, we are working with the authorities to gain approval for the permits which will allow us to start export sales.

We will also step up our engagement with the medical community as we support a streamlining of the requirements for patient access and help ensure medical professionals have the resources they require to make considered decisions on the suitability of medicinal cannabis treatment for their patients.

It will be another challenging and busy year, but one that should see substantial progress against the Company's business objectives.

DIRECTORS' REPORT

Your directors present their report on the Group for the year ended 30 June 2018.

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.

Director since 30 January 2015

Special Responsibilities – Member of Audit and Risk Committee and Chairman of Remuneration Committee

Interest in Shares

5,580,000 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.

Director since 30 January 2015

Special Responsibilities – Chairman of Audit and Risk Committee and Member of Remuneration Committee

Interest in Shares

4,064,518 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. The Chairman of the Rathbone Wine Group, Director of Cotton Seed Distributors, Leaf Resources Ltd (ASX LER) from 1 November 2016 and Chairman since 1 April 2018, Go Resources, Queenscliff Harbour Pty Ltd and AgBiTech. He is also a former member of the RABO Bank Advisory Board, an Honorary Life Governor of the Royal Children's Hospital and a former Director of the Burnett Centre for Medical Research. Doug brings to the Board experienced management and corporate governance skills together with a passion to grow the business having successfully transformed Nufarm to become one of the world's leading crop protection and seed companies with an extensive global footprint.

Director since 16 March 2015

Special Responsibilities – Member of Audit and Risk Committee and Remuneration Committee

Interest in Shares and Performance Rights

2,331,185 Ordinary Shares

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 and a Director of McPherson's Limited (ASX MCP) since 20 February 2018.

Director since 11 April 2016

Special Responsibilities – Member of Audit and Risk Committee and Remuneration Committee

Interest in Shares

1,554,195 Ordinary Shares

DIRECTORS' REPORT (CONTINUED)

Neil Belot

Neil is presently the Chief Global Business Development Officer of Aurora Cannabis Inc. ("Aurora") responsible for developing and executing business opportunities on behalf of Aurora to create shareholder value and drive long term growth utilising his comprehensive knowledge of the global regulated cannabis industry, commodity markets, cannabis cultivation, stakeholder relations, branding and marketing. He has also held the position of Chief Brand Officer at Aurora with responsibility for strategic and operational oversight of sales, marketing, client and stakeholder relations, digital technology and business development. Prior to his roles with Aurora Neil was an Executive Director of the Canadian Medical Cannabis Industry Association and the Gas Portfolio and Energy Services Manager at the Housing Services Corporation, both Canadian entities. He has post-graduate qualifications including Masters of Business Administration in Finance and International Exchange obtained from Dalhousie University (Nova Scotia, Canada) and the Copenhagen Business School (Denmark) and graduate qualifications of a Bachelor of Business Administration from Acadia University (Nova Scotia, Canada).

He is a Canadian citizen.

Director since 26 February 2018

Special Responsibilities – Nil.

Interest in Shares

Nil

CHIEF EXECUTIVE OFFICER

Peter Crock,

CEO, B.Ag.Sci (Hon); MBA

Peter is an experienced public company senior manager with deep knowledge and expertise in marketing and technology development. Since joining Cann Group in May 2016, Peter has reset the business plan as directed by the board and led the company through a successful initial public offering (IPO) to list on the Australian Securities Exchange (ASX), raising \$13.5 million while bringing outstanding institutional and cornerstone investor support. This was followed by a subsequent \$70m+ capital raising within the same year to accelerate the company's expansion program. In a 28-year career at Nufarm Limited (ASX: NUF), Peter held senior management roles in marketing, business development, and information technology and led Nufarm'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.Commercial Law, B.Ec., FGIA, CPA

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

DIVIDENDS

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

PRINCIPAL ACTIVITIES

The principal activities of the Group during the year consisted of cultivation of medicinal cannabis for both medicinal and research purposes pursuant to the licenses and permits issued to Group members and commercialising the outputs for medicinal uses, as well as developing Cann's cannabis cultivation technology of controlled growing environments with a view to substantially increasing capacity of the growing environments. Cann also actively sought and entered in various agreements with strategic collaborators to further commercialisation of Cann's outputs for medicinal purposes.

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

OPERATING RESULTS FOR THE YEAR

The Group made an operating loss of \$4,725,857 for the year ended 30 June 2018.

The Group's basic and diluted earnings per share is (\$0.038) (2017: \$0.051). The Weighted Average number of Shares used to calculate the basic and diluted earnings per share is 125,281,943 (2017: 52,328,805).

The net assets of the Group are \$85.87 million as at 30 June 2018 (2017: \$14.66 million).

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

DIRECTORS' REPORT (CONTINUED)

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Share Placements

During the year the Company placed New Shares to institutional, professional and sophisticated investors as follows:

- on 12 December 2017 the Company placed 23,480,000 New Shares at \$2.50 per New Share; and
- on 24 January 2018 the Company placed 3,194,033 New Shares at \$2.50 per New Share.

During the year the Company also placed 520,000 New Shares at \$2.50 per New Share to Directors of the Company.

Share Purchase Plan

During the year the Company issued a Share Purchase Plan (SPP) dated 13 December 2017 to eligible shareholders, being shareholders who were recorded on Cann's share register at 7:00pm (AEDT) on 29 November 2017. The SPP was oversubscribed and after a scale-back a total of 3,999,264 New Shares were issued to subscribers at a price of \$2.50 per New Share.

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 entity.

ENVIRONMENTAL REGULATION AND PERFORMANCE

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

DIRECTORS' MEETINGS

The number of meetings of the Company's Board of Directors, Audit and Risk Committee and Remuneration Committee members held during the year ended 30 June 2018 and the number of meetings attended by each Director/member were:

| Name | Board Meetings | | Audit and Risk Committee Meetings | | Remuneration Committee Meetings | |
|---|---------------------------|-----------------|-----------------------------------|-----------------|---------------------------------|-----------------|
| | Number eligible to attend | Number attended | Number eligible to attend | Number attended | Number eligible to attend | Number attended |
| Allan McCallum | 7 | 7 | 2 | 2 | 1 | 1 |
| Philip Jacobsen | 7 | 7 | 2 | 2 | 1 | 1 |
| Douglas Rathbone | 7 | 7 | 2 | 2 | 1 | 1 |
| Geoff Pearce | 7 | 7 | 2 | 2 | 1 | 1 |
| Neil Belot (appointed 26 February 2018) | 3 | 3 | – | – | – | – |

OPTIONS

The Group 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 (CONTINUED)

REMUNERATION REPORT (AUDITED)

1. Introduction

This Remuneration Report outlines the Company's remuneration strategy for the financial year ended 30 June 2018 and provides detailed information on the remuneration outcomes for the year for the Directors, Chief Executive Officer (CEO) and other Key Management Personnel. For the purpose of this Report Key Management Personnel 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.

The Directors of the Company are pleased to present the Remuneration Report (Report) for the Company and its subsidiaries (Group) for the financial year ended 30 June 2018. This Report forms part of the Directors' Report and has been prepared and audited in accordance with the requirements of the *Corporations Act 2001*.

2. Remuneration Philosophy

During the year the Cann Board of Directors formed a Remuneration Committee consisting of four of the five members of the Board. The Remuneration Committee is responsible for making recommendations to the Board on remuneration policies and packages applicable to Directors, the CEO and Key Management Personnel. The Remuneration Committee is subject to the Remuneration Policy and that Policy having the objectives to provide a competitive, benchmarked and flexible structure and is tailored to the specific circumstances of the Company and which reflects the person's duties and responsibilities so as to attract, motivate and retain people of the appropriate quality.

The Company's Remuneration Policy is reviewed at least once a year and is subject to amendment to ensure it reflects market best practice.

Remuneration levels are competitively set to attract appropriately qualified and experienced Directors and executives. The Remuneration Committee obtains market data on remuneration levels. The remuneration packages of the Chief Executive Officer and Senior Executives may include a short-term incentive component that is based on specific Company goals pertaining to financial and operational performance. The Chief Executive Officer and Senior Executives may also be invited to participate in the Company's Long-term Incentive Plan, the benefits of which are conditional upon the Company achieving certain performance criteria, the details of which are outlined below.

In accordance with the ASX Corporate Governance Principles and Recommendations, the structure of Non-executive Director remuneration is separate from executive remuneration.

3. Relationship between the Remuneration Policy and Company Performance

At the present stage of the Company's evolution, the consolidated entity assesses its performance from achievement of operational goals and shareholder value. The performance measures for both the Company's Short-term Incentive Plan (STI Plan) and Long-term Incentive Plan (LTI Plan) have been tailored to align at-risk remuneration and performance hurdle thresholds to the delivery of operational and future financial objectives and sustained shareholder value growth.

4. Components of Remuneration – Non-executive Directors

The Constitution of the Company and the ASX Listing Rules require that the aggregate remuneration of non-executive Directors shall be determined from time to time by a resolution approved by shareholders at a general meeting. Currently the aggregate remuneration threshold is set at \$175,000 per annum as approved by shareholders at the AGM held on 19 October 2016. Legislated superannuation conditions made on behalf of non-executive Directors are included within the aggregate remuneration threshold.

Non-executive Directors receive a cash fee for their service and have no entitlement to any performance-based remuneration or any participation in any share-based incentive schemes. Presently no additional fee is paid to non-executive Directors for being a member of any Board committees.

Fees payable to the non-executive Directors for the 2018 financial year inclusive of superannuation contributions were as follows:

| | \$ |
|-----------------------------------|--------|
| Chairman | 32,850 |
| Each other non-executive Director | 21,900 |

DIRECTORS' REPORT (CONTINUED)

REMUNERATION REPORT (CONTINUED)

5. Components of Remuneration – Chief Executive Officer and Other Senior Executives

(a) Structure

The Company aims to reward the Chief Executive Officer and Senior Executives with a level and mix of remuneration commensurate with their position and responsibilities within the Group, so as to:

- reward them for Company and individual performance against targets set by reference to appropriate benchmarks and key performance indicators;
- align their interest with those of shareholders; and
- ensure total remuneration is competitive by market standards.

Remuneration consists of both fixed and variable remuneration components. The variable remuneration consists of the STI Plan and the LTI Plan.

The proportion of fixed and variable remuneration is established for the Chief Executive Officer by the Board and for each Senior Executive by the Board following recommendations from the Chief Executive Officer and the Remuneration Committee.

The Chief Executive Officer's and Senior Executives' remuneration packages are all subject to Board approval.

(b) Fixed remuneration

The fixed remuneration component of the Chief Executive Officer and Senior 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, taking into account the performance of the individual and the Group. There are no guaranteed increases to fixed remuneration in any contracts of employment.

The Chief Executive Officer and Senior Executives have the option to receive their fixed annual remuneration in cash and a limited range of prescribed fringe benefits. The total cost of any remuneration package, including fringe benefits tax, is taken into account in determining an employee's fixed annual remuneration.

(c) Variable remuneration – STI Plan

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

From a governance perspective, all performance measures under the STI Plan must be clearly defined and measurable. The Remuneration Committee approves the targets and assesses the performance outcome of the Chief Executive Officer. The Board and the Chief Executive Officer set the targets and assesses the performance of Senior Executives. The Board approves STI Plan payments for the Chief Executive Officer and Senior Executives. Under the STI Plan, the Board has discretion to adjust STI Plan 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.

The target STI Plan percentage range for the Chief Executive Officer and other Key Management Personnel in respect of the financial year ended 30 June 2018 is detailed below:

| Executive | STI range calculated on fixed annual remuneration |
|-------------|---|
| P. Crock | 30% – 60% |
| R. Baker | 15% – 30% |
| S. Notaro | 15% – 30% |
| G. Aldred | 15% – 30% |
| C. McGregor | 15% – 30% |
| J. Yodgee | 15% – 30% |

DIRECTORS' REPORT (CONTINUED)

REMUNERATION REPORT (CONTINUED)

(d) Variable remuneration – LTI Plan

The LTI component of the Chief Executive Officer and other Senior Executives total remuneration is an equity incentive plan that is designed to encourage the Chief Executive Officer and Senior Executives to focus on key performance drivers which underpin sustainable growth in shareholder value. The LTI Plan facilitates share ownership by the Chief Executive Officer and Senior Executives 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. It is intended that any future LTI's will focus on driving key performance outcomes that underpin sustainable growth and the creation of shareholder wealth in the longer term. This will be achieved by motivating and rewarding the Chief Executive Officer and Senior Executives to drive share price growth via improvements to Total Shareholder Returns and Return on Invested Capital.

Under the LTI Plan, the Chief Executive Officer and other Senior Executives are granted performance rights which will only vest on the achievement of certain performance hurdles and service conditions.

Each grant of performance rights is subject to specific performance hurdles and the degree to which those hurdles have been met is assessed by the Board at the end of the relevant performance period. The Board may, at its discretion, vary the performance hurdles for each offer made under the LTI Plan, however once the Board has prescribed the performance hurdle(s) for a specific offer, those hurdles cannot be varied in respect of that offer.

If a change of control occurs during a performance period, the pro-rated number of performance rights held by a participant (calculated according to the part of the performance period elapsed prior to the change of control) is determined and to the extent the performance hurdles have been met those pro-rated performance rights will vest.

Performance rights granted for the financial year ended 30 June 2018

The performance hurdles for the grant of rights of performance rights to the Chief Executive Officer in the financial year ended 30 June 2018 are based on shareholder value and service period. The Performance Rights vest in three tranches and below are the terms of the performance rights:

- 250,000 Performance Rights vest subject to the share price of Cann achieving a 30-day Volume Weighted Average Price (VWAP) of greater than \$1.00 at any time during the two-year period (referred to as the vesting period) between the grant date and 21 November 2019 (vesting date) and ongoing employment during this period with the Company;
- 350,000 Performance Rights vest subject to the share price of Cann achieving a 30-day VWAP of greater than \$1.50 at any time during the vesting period and ongoing employment during this period with the Company;
- 400,000 Performance Rights vest subject to the share price of Cann achieving a 30-day VWAP of greater than \$2.00 at any time during the vesting period and ongoing employment during this period with the Company;
- the Performance Rights were issued at no cost and there is no exercise price payable to acquire the underlying shares should the vesting conditions be met;
- once vested, the Performance Rights may be exercised at any time until their expiry which is three years after the grant date, being 20 November 2020 (expiry date); and
- once the Performance Rights vest and are subsequently exercised and converted to ordinary shares in Cann, they are subject to a further two-year restriction period from the date of exercise in which they cannot be transferred or disposed of. We have assumed the Performance Rights will be exercised and converted to ordinary shares in Cann on the vesting date. Accordingly, once vested and exercised, the share-based payments are in substance unlisted ordinary shares.

DIRECTORS' REPORT (CONTINUED)

REMUNERATION REPORT (CONTINUED)

(e) Contract for services – Chief Executive Officer

The structure of the Chief Executive Officer's remuneration is in accordance with his employment agreement. The Chief Executive Officer's employment agreement is for an indefinite term. The Company may terminate the agreement by providing four months' notice and the Chief Executive Officer may terminate the agreement by providing four months' notice. There are no termination benefits beyond statutory leave and superannuation entitlements associated with termination in accordance with the above notice requirements or in circumstances where notice is not required pursuant to the employment agreement.

(f) Contract for services – Senior Executives

The terms on which the majority of Senior Executives are engaged provide for termination by either the Executive of the Company on four months' notice. There are no termination benefits beyond statutory leave and superannuation entitlements associated with these notice requirements.

6. Key Management Personnel Remuneration

(a) Identity of Key Management Personnel

The following were Key Management Personnel of the consolidated entity at any time during the financial year.

Directors:

| Name | Title |
|-------------|------------------------|
| A. McCallum | Chairman |
| P. Jacobsen | Deputy Chairman |
| D. Rathbone | Non-executive Director |
| G. Pearce | Non-executive Director |
| N. Belot* | Non-executive Director |

* Period from 26 February 2018 to 30 June 2018.

Other Key Management Personnel

| Name | Title |
|----------|-------------------------|
| P. Crock | Chief Executive Officer |

DIRECTORS' REPORT (CONTINUED)

REMUNERATION REPORT (CONTINUED)

(b) Remuneration of Key Management Personnel

Details of the nature and amount of each major element of remuneration of each Key Management Personnel and the consolidated entity are set out below. The remuneration tables are calculated on an accruals basis and only include remuneration relating to the relevant period that the employees was a Key Management Personnel of the Company.

| | | Short-term employment benefits | | Post-employment Benefits | Share-based remuneration | Total \$ |
|--|-------------|--------------------------------|----------------------|--------------------------|--------------------------|------------------|
| | | Salary and Fees \$ | STI cash bonus \$ | Superannuation \$ | Performance Rights \$ | |
| 2018 FINANCIAL YEAR | | | | | | |
| Non-Executive Directors | | | | | | |
| A. McCallum | 2018 | 30,000 | – | 2,850 | – | 32,850 |
| | 2017 | 5,000 | – | 475 | 11,686 | 17,161 |
| P. Jacobsen | 2018 | 21,900 | – | – | – | 21,900 |
| | 2017 | 3,650 | – | – | 5,843 | 9,493 |
| D. Rathbone | 2018 | 20,000 | – | 1,900 | – | 21,900 |
| | 2017 | 3,333 | – | 317 | 6,778 | 10,428 |
| G. Pearce | 2018 | 20,000 | – | 1,900 | – | 21,900 |
| | 2017 | 3,333 | – | 317 | 4,207 | 7,857 |
| M. Murchison | 2018 | – | – | – | – | – |
| | 2017 | 103,201 | – | – | 3,038 | 106,248 |
| N. Belot (appointed 26 February 2018) | 2018 | 6,667 | – | – | – | 6,667 |
| Other Key Management Personnel and Executive Officers | | | | | | |
| P. Crock | 2018 | 230,178 | – | 20,571 | 742,877 | 993,626 |
| | 2017 | 194,224 | 50,000 | 15,712 | 2,921 | 262,857 |
| Total | 2018 | 328,745 | – | 27,221 | 742,877 | 1,098,843 |
| Total | 2017 | 312,741 | 50,000 | 16,821 | 34,473 | 414,044 |

Analysis of LTI and other performance rights granted as remuneration

Details the vesting profile of the performance rights granted as remuneration to the Chief Executive Officer and each of the named Executive Officers are summarised below:

DIRECTORS' REPORT (CONTINUED)

REMUNERATION REPORT (CONTINUED)

Performance rights granted during the financial year ended 30 June 2018

| | Number granted | Grant date | Vesting date | Vested during the year Number | Vested during the year % | Forfeited during the year Number | Forfeited during the year % | Value yet to vest | |
|----------|----------------|------------------|------------------|----------------------------------|-----------------------------|-------------------------------------|--------------------------------|-------------------|------------|
| | | | | | | | | Minimum \$ | Maximum \$ |
| P. Crock | 1,000,000 | 21 November 2017 | 21 November 2019 | – | – | – | – | – | 2,465,000 |

Shares issued on exercise of the Performance Rights will be subject to a restriction period of two years during which the shares issued on exercise of the Performance Rights cannot be transferred or otherwise dealt with.

Performance rights granted during the financial year ended 30 June 2017

There were no performance rights granted to Key Management Personnel during the financial year ended 30 June 2017.

Equity Holdings

| 2018 | Balance as at 1 July 2017 Number | Balance at appointment date (if applicable) Number | On exercise of performance rights Number | On exercise of options Number | Acquisitions, disposal or transfers* Number | Balance at resignation date (if applicable) Number | Balance as at 30 June 2018 Number | Balance held nominally Number |
|---------------------------------------|-------------------------------------|---|---|----------------------------------|--|---|--------------------------------------|----------------------------------|
| Directors | | | | | | | | |
| A. McCallum | 5,480,000 | – | – | – | 100,000 | – | 5,580,000 | – |
| P. Jacobsen | 3,773,334 | – | – | – | 291,184 | – | 4,064,518 | – |
| D. Rathbone | 2,193,334 | – | – | – | 137,851 | – | 2,331,185 | – |
| G. Pearce | 1,200,000 | – | – | – | 354,195 | – | 1,554,195 | – |
| N. Belot | – | – | – | – | – | – | – | – |
| Other Key Management Personnel | | | | | | | | |
| P. Crock | 336,667 | – | – | – | 3,728 | – | 340,395 | – |
| Total | 12,983,335 | – | – | – | 886,958 | – | 13,870,293 | – |

* The purchases, disposal or transfers of shares are in compliance with the Company's Securities Trading Policy.

DIRECTORS' REPORT (CONTINUED)

REMUNERATION REPORT (CONTINUED)

| 2017 | Balance as at 1 July 2016 | Balance at appointment date (if applicable) | On exercise of performance rights | On exercise of options | Acquisitions, disposal or transfers* | Balance at resignation date (if applicable) | Balance as at 30 June 2017 | Balance held nominally |
|---------------------------------------|---------------------------|---|-----------------------------------|------------------------|--------------------------------------|---|----------------------------|------------------------|
| | Number | Number | Number | Number | Number | Number | Number | Number |
| Directors | | | | | | | | |
| A. McCallum | 3,840,000 | – | 1,000,000 | 640,000 | – | – | 5,480,000 | – |
| P. Jacobsen | 2,300,000 | – | 500,000 | 800,000 | 173,334 | – | 3,773,334 | – |
| D. Rathbone | 1,120,000 | – | 580,000 | 320,000 | 173,334 | – | 2,193,334 | – |
| G. Pearce | 520,000 | – | 360,000 | 320,000 | – | – | 1,200,000 | – |
| M. Murchison | 13,600,000 | – | 260,000 | – | (13,600,000) | 13,600,000 | 260,000 | – |
| Other Key Management Personnel | | | | | | | | |
| P. Crock | – | – | 250,000 | – | 86,667 | – | 336,667 | – |
| Total | 21,380,000 | – | 2,950,000 | 2,080,000 | (13,166,665) | 13,600,000 | 13,243,335 | – |

* The purchases, disposal or transfers of shares are in compliance with the Company's Securities Trading Policy.

Long-term Incentive Plan – Performance Rights

| 2018 | Balance as at 1 July 2017 | Balance at appointment date (if applicable) | Granted | Vested | Lapsed | Net other change | Balance as at 30 June 2018 | Balance held nominally |
|--------------|---------------------------|---|------------------|----------|----------|------------------|----------------------------|------------------------|
| | Number | Number | Number | Number | Number | Number | Number | Number |
| P. Crock | – | – | 1,000,000 | – | – | – | 1,000,000 | – |
| Total | – | – | 1,000,000 | – | – | – | 1,000,000 | – |

There were no performance rights granted to Key Management Personnel through a Long-term Incentive Plan during the financial year ended 30 June 2017.

DIRECTORS' REPORT (CONTINUED)

REMUNERATION REPORT (CONTINUED)

| 2017 | Balance as at 1 July 2016 Number | Balance at appointment date (if applicable) Number | Granted Number | Vested Number | Lapsed Number | Net other change Number | Balance as at 30 June 2017 Number | Balance held nominally Number |
|---------------------------------------|-------------------------------------|---|-------------------|------------------|------------------|----------------------------|--------------------------------------|----------------------------------|
| Directors | | | | | | | | |
| A. McCallum | 1,000,000 | – | – | 1,000,000 | – | – | – | – |
| P. Jacobsen | 500,000 | – | – | 500,000 | – | – | – | – |
| D. Rathbone | 580,000 | – | – | 580,000 | – | – | – | – |
| G. Pearce | 360,000 | – | – | 360,000 | – | – | – | – |
| M. Murchison | 260,000 | – | – | 260,000 | – | – | – | – |
| Other Key Management Personnel | | | | | | | | |
| P. Crock | – | – | – | 250,000 | – | 250,000 | – | – |
| Total | – | – | – | 2,950,000 | – | 250,000 | – | – |

DIRECTORS' REPORT (CONTINUED)

Indemnifying Officers or Auditor

No indemnities have been given, however a Directors and Officers insurance premium totalling \$32,200 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 6.

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 22.

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 2018 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: 22 August 2018

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 2018 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 22nd day of August, 2018

CHARTERED ACCOUNTANTS & ADVISORS

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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.



CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2018

| | Note | 2018 \$ | 2017 \$ |
|--|------|--------------------|--------------------|
| Revenue | | 560,000 | – |
| Other income | | 943,391 | 8,421 |
| Administration and corporate costs | 3 | (7,286,394) | (1,642,100) |
| Research and development costs | 3 | (776,430) | (547,782) |
| Fair value adjustment of biological assets | | 104,820 | – |
| Changes in inventories of finished goods and work-in-progress | | 1,737,137 | – |
| Loss before transaction costs, finance costs and income tax expense | | (4,717,476) | (2,181,461) |
| Transaction costs of the IPO | | – | (406,435) |
| Finance costs | | (8,381) | (549) |
| Loss before income tax expense | | (4,725,857) | (2,588,445) |
| Income tax expense | | – | – |
| Loss attributable to members of the Group | | (4,725,857) | (2,588,445) |
| Other comprehensive income | | – | – |
| Total comprehensive loss attributable to members of the Group | | (4,725,857) | (2,588,445) |
| Basic and Diluted Earnings Per Share (EPS) | | (0.038) | (0.051) |
| Weighted Average number of Shares used to calculate EPS* | | 125,281,943 | 52,328,805 |

* 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 2018

| | Note | 2018 \$ | 2017 \$ |
|--------------------------------------|------|-------------------|-------------------|
| ASSETS | | | |
| CURRENT ASSETS | | | |
| Cash and cash equivalents | | 49,566,890 | 11,113,964 |
| Investment in term deposits | | 30,082,849 | – |
| Prepayments | | 137,693 | 133,453 |
| Inventories | 7 | 1,405,286 | – |
| Biological assets | | 205,301 | 24,927 |
| TOTAL CURRENT ASSETS | | 81,398,019 | 11,272,344 |
| NON-CURRENT ASSETS | | | |
| Plant and equipment | 7 | 5,232,518 | 716,672 |
| Intangible assets | | 84,971 | – |
| Investment in term deposits | | – | 3,000,000 |
| Rental bonds | | 85,000 | 85,000 |
| TOTAL NON-CURRENT ASSETS | | 5,402,489 | 3,801,672 |
| TOTAL ASSETS | | 86,800,508 | 15,074,016 |
| LIABILITIES | | | |
| CURRENT LIABILITIES | | | |
| Unsecured trade and other payables | | 907,107 | 389,103 |
| Lease liability | | 4,198 | 4,198 |
| TOTAL CURRENT LIABILITIES | | 911,305 | 393,301 |
| NON-CURRENT LIABILITIES | | | |
| Lease liability | | 16,369 | 20,567 |
| TOTAL NON-CURRENT LIABILITIES | | 16,369 | 20,567 |
| TOTAL LIABILITIES | | 927,674 | 413,868 |
| NET ASSETS | | 85,872,834 | 14,660,148 |
| EQUITY | | | |
| Issued equity | 10 | 95,081,758 | 20,187,092 |
| Performance rights reserve | 12 | 1,043,877 | – |
| Accumulated losses | | (10,252,801) | (5,526,944) |
| TOTAL EQUITY | | 85,872,834 | 14,660,148 |

The accompanying notes form part of these statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2018

| | Issued equity \$ | Performance Rights reserve \$ | Accumulated losses \$ | Total equity \$ |
|---|---------------------|--|-----------------------------|--------------------|
| Balance at 1 July 2017 | 20,187,092 | – | (5,526,944) | 14,660,148 |
| Issue of shares | 77,983,243 | – | – | 77,983,243 |
| Costs of issuing shares | (3,088,577) | – | – | (3,088,577) |
| Issue and vesting of Classes C and D performance rights | – | 1,043,877 | – | 1,043,877 |
| Transactions with owners in their capacity as owners | | | | |
| Comprehensive loss for the period ended 30 June 2018 | – | – | (4,725,857) | (4,725,857) |
| Balance at 30 June 2018 | 95,081,758 | 1,043,877 | (10,252,801) | 85,872,834 |

| | 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) |
| Issue and vesting of Class B performance rights and issue of shares | – | 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 | | | | |
| 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 |

The accompanying notes form part of these statements

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2018

| | Note | 2018 \$ | 2017 \$ |
|--|-----------|---------------------|--------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Revenue from customers | | 616,000 | – |
| Other income received | | 45,646 | 382 |
| Payments to suppliers and employees | | (5,313,902) | (2,307,271) |
| Interest received | | 897,745 | 8,038 |
| Net cash flows provided by/(used in) operating activities | 14 | (3,754,511) | (2,298,851) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Acquisition of plant and equipment | | (5,579,380) | (329,446) |
| Acquisition of other assets | | (25,000) | (50,000) |
| Investment in term deposits | | (27,082,849) | (3,000,000) |
| Net cash flows used in investing activities | | (32,687,229) | (3,379,446) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Proceeds from issues of shares | | 77,983,243 | 15,619,000 |
| Costs of issuing shares | | (3,088,577) | (170,794) |
| Net cash flows provided by financing activities | | 74,894,666 | 15,448,206 |
| Net increase/(decrease) in cash held | | 38,452,926 | 9,769,909 |
| Cash and cash equivalents at the beginning of the year | | 11,113,964 | 1,344,055 |
| CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR | | 49,566,890 | 11,113,964 |

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 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 2018. 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 2018 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 the financial statements when adopted.

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

Refer to Note 17 for the Group's current lease commitments.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(b) Principles of Consolidation

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

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

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

(c) Income Tax

The income tax expense (income) for the 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. Cash at bank includes term deposits with a term of three months or less.

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

(e) Inventory

Inventory is valued depending upon the specific purpose of that inventory class. Costs incurred for inventory held as

- (i) research and development is expensed as incurred;
- (ii) bearer plant inventory held is valued at cost less accumulated depreciation and impairment losses; and
- (iii) non-bearer plant inventory is valued at fair value less costs to sell, and where fair value is not readily available, at cost or Net Realisable Value.

(f) Goods and Services Tax (GST)

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(f) 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.

(g) 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.

(i) 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 2018, the Group's asset classes had effective useful lives as follows:

| Asset Class | Useful Life (years) |
|--|---------------------|
| Grow Room facilities and infrastructure | 3 to 7 |
| Computer, network and security equipment | 1 to 3 |
| Tools and workshop equipment | 1 to 3 |
| Leasehold improvements | 2 to 5 |
| Office furniture and equipment | 1 to 3 |

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

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

(j) 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(k) 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.

(l) 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 \$1,560,494 (2017: \$703,351) arising from current year tax losses of \$4,725,857 (2017: \$2,588,445) 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 \$2,637,618, 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 – valuation of biological assets

The valuation methodology of biological assets relate to the forecast harvest weights, forecast sale prices, forecast feed costs, labour and overheads, as well as discount rate. Discounted cash flows consider the present value of the net cash flows expected to be generated by the crop at maturity, the expected additional biological transformation and the risks associated with the asset; the expected net cash flows are discounted using risk-adjusted discount rates.

Key Judgement – valuation of Performance Rights

Performance rights issued are measured at the fair value from grant date. These were independently valued using a Binomial valuation model. The data input into this model included the volatility rate of 100%, and risk free rate of 1.92%.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. EXPENSES

| | 2018 \$ | 2017 \$ |
|-------------------------|--------------------|--------------------|
| Depreciation | (831,757) | (124,297) |
| Employee salaries | (2,223,666) | (569,945) |
| Employee superannuation | (176,635) | (53,147) |
| Share-based payments | (1,043,877) | (110,904) |
| Lease expense | (1,092) | (834) |
| Occupancy expenses | (544,412) | (269,690) |
| | (4,821,439) | (1,128,817) |

4. BASIC AND DILUTED LOSS per share

The earnings and weighted average number of ordinary shares used in the calculation of basic earnings per share are as follows:

| | 2018 \$ | 2017 \$ |
|--|-------------|-------------|
| Net loss attributable to ordinary equity holders (used in calculating basic and diluted EPS) | (4,725,857) | (2,588,445) |

| | Number of shares | Number of shares |
|--|---------------------|---------------------|
| Weighted average number of ordinary shares for the purpose of earnings per share | 125,281,943 | 52,328,805 |

Performance Rights have not been included in the weighted average number of ordinary shares as the Group presently has accumulated losses and no certainty of future profits to offset those losses.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5. KEY MANAGEMENT PERSONNEL

(a) Names and positions held of key management personnel in office at any time during the year are:

| Key Management Person | Position |
|--|-------------------------|
| Mr Allan McCallum | Chairman |
| Mr Philip Jacobsen | Deputy Chairman |
| Mr Douglas Rathbone | Director |
| Mr Geoff Pearce | Director |
| Mr Neil Belot (appointed 26 February 2018) | Director |
| Mr Peter Crock | Chief Executive Officer |

(b) Remuneration paid to Key Management Personnel

| | 2018 \$ | 2017 \$ |
|------------------------------|------------------|----------------|
| Short-term employee benefits | 328,745 | 362,750 |
| Post-employment benefits | 27,221 | 16,821 |
| Share-based payments | 742,877 | 34,473 |
| | 1,098,843 | 414,044 |

6. 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:

| | 2018 \$ | 2017 \$ |
|--|---------------|---------------|
| (i) AUDIT AND OTHER ASSURANCE SERVICES | | |
| Audit and review of financial statements | 28,000 | 24,000 |
| Other audit and assurance related services | 460 | 1,365 |
| Total remuneration for audit and other assurance services | 28,460 | 25,365 |
| (ii) CONSULTING SERVICES | | |
| Consulting fees regarding Research and Development Tax Incentive | 29,990 | 800 |
| Total remuneration for consulting services | 29,990 | 800 |
| Total remuneration of William Buck | 58,450 | 26,165 |

7. INVENTORIES

| | 2018 \$ | 2017 \$ |
|--------------------------|------------------|------------|
| Finished goods – biomass | 1,371,366 | – |
| Finished goods – oil | 33,920 | – |
| | 1,405,286 | – |

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

8. PLANT AND EQUIPMENT

(a) Plant and equipment

| | 2018 | | | 2017 | | |
|--------------------------|-------------------------|-------------------------------|------------------|-------------------------|-------------------------------|----------------|
| | Growth Facilities \$ | Other plant & equipment \$ | Total \$ | Growth Facilities \$ | Other plant & equipment \$ | Total \$ |
| Cost | 5,075,150 | 1,374,117 | 6,449,267 | 728,597 | 141,288 | 869,855 |
| Accumulated Depreciation | (706,823) | (278,147) | (984,972) | (106,374) | (46,839) | (153,213) |
| Loss on disposal | (231,777) | | (231,777) | | | |
| Closing Balance | 4,136,550 | 1,095,970 | 5,232,518 | 622,223 | 94,451 | 716,672 |

(b) Movements in plant and equipment

| | 2018 | | | 2017 | | |
|------------------------|-------------------------|-------------------------------|------------------|-------------------------|-------------------------------|----------------|
| | Growth Facilities \$ | Other plant & equipment \$ | Total \$ | Growth Facilities \$ | Other plant & equipment \$ | Total \$ |
| Opening Balance | 622,223 | 94,449 | 716,672 | 452,372 | 34,386 | 486,758 |
| Additions | 4,346,553 | 1,232,828 | 5,579,381 | 259,109 | 95,104 | 354,213 |
| Depreciation | (600,448) | (231,309) | (831,757) | (89,258) | (35,039) | (124,297) |
| Loss on disposal | (231,777) | – | (231,777) | – | – | – |
| Closing Balance | 4,136,550 | 1,095,969 | 5,232,518 | 622,223 | 94,451 | 716,672 |

During the year Secure Cultivation Rooms 03 to 07 were completed to operational levels and were available for use during the year. Secure Cultivation Room 08 was in construction as at 30 June 2018. As at 30 June 2018 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 2018 whereby the Directors compared the carrying values of all of the Secure Grow Rooms and the Laboratory/Drying Room to the selling values of comparable assets and concluded that no impairment existed relating to these assets. The Research and Development/Nursery was disposed of during the year for no consideration. Initial costs of preliminary works prior to construction of the Stage 3 facility which will consist of glasshouse cultivation space, research and development laboratories and a GMP manufacturing facility. The capitalised costs relate to facility design fees and consultant fees relating to regulatory approvals.

9. CONTROLLED ENTITIES

Cann Group Limited has four wholly-owned subsidiaries as at 30 June 2018 as follows:

| Subsidiary Name | Date Acquired | Number of Shares held | Percentage Shareholding |
|--|------------------|-----------------------|-------------------------|
| Cannproducts Pty Ltd (ACN 600 887 189) | 27 February 2015 | 100 | 100% |
| Cannoperations Pty Ltd (ACN 603 323 226) | 27 February 2015 | 100 | 100% |
| Cann IP Pty Ltd (formerly Anslinger Holdings Pty Ltd) (ACN 169 764 407) | 27 February 2015 | 100 | 100% |
| Botanitech Pty Ltd (formerly Cann Investments Pty Ltd) (ACN 604 834 488) | 18 March 2015 | 100 | 100% |

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

10. ISSUED CAPITAL

| | 30 June 2018 Number of Shares | 30 June 2017 Number of Shares | 30 June 2018 \$ | 30 June 2017 \$ |
|------------------------------|-------------------------------------|-------------------------------------|--------------------|--------------------|
| Ordinary shares – fully paid | 139,546,632 | 108,353,335 | 95,081,758 | 20,187,092 |
| Total issued capital | 139,546,632 | 108,353,335 | 95,081,758 | 20,187,092 |

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.

Movements in issued capital:

| Issue Date | Issue Price \$ | Number of Shares and Options | 2018 \$ |
|--|-------------------|------------------------------------|-------------------|
| Balance 1 July 2017 | | 108,353,335 | 19,949,092 |
| 12 December 2017 – placement (net of costs) | 2.50 | 23,480,000 | 56,172,622 |
| 22 January 2018 – share purchase plan (net of costs) | 2.50 | 3,999,264 | 9,499,813 |
| 23 January 2018 – placement (net of costs) | 2.50 | 520,000 | 1,241,858 |
| 24 January 2018 – placement (net of costs) | 2.50 | 3,194,033 | 7,980,373 |
| Total Issued Capital on an undiluted basis as at 30 June 2018 | | 139,546,632 | 94,843,758 |
| Total Options on issue** | – | 2,000,000 | 238,000 |
| Total Issued Capital on a diluted basis as at 30 June 2018 | | 141,546,632 | 95,081,758 |

** Refer Note 11 regarding total number of Options on issue as at 30 June 2018.

| 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 Capital on an undiluted basis as at 30 June 2017 | | 108,353,335 | 19,949,092 |
| Total Options on issue | – | 2,000,000 | 238,000 |
| Total Issued Capital on a diluted basis as at 30 June 2017 | | 110,353,335 | 20,187,092 |

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

11. OPTIONS

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

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.

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.

| Issue Date | Issue Price \$ | Number of Options |
|----------------------|-------------------|----------------------|
| Balance 1 July 2017 | | 2,000,000 |
| Balance 30 June 2018 | | 2,000,000 |

| 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 |

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

12. PERFORMANCE RIGHTS

Movement in Performance Rights Reserve

Performance Rights Class C

| Date | Number of Performance Rights | 2018 \$ |
|-------------------------------|------------------------------|----------------|
| Balance 1 July 2017 | – | – |
| 21 November 2017 [^] | 1,000,000 | 742,877 |
| Balance 30 June 2018 | 1,000,000 | 742,877 |

[^] On 21 November 2017 1,000,000 Performance Rights Class C were issued to the Chief Executive Officer with a total vesting value of \$2,465,000 to 21 November 2019.

The Performance Rights Class C are subject to the following vesting conditions:

- 250,000 Performance Rights Class C subject to the offeree being continuously employed for a period of two years from the grant date and the 30-day Volume Weighted Average Price of Cann Group Limited's ordinary shares as traded on the Australian Securities Exchange (ASX) is greater than \$1.00;
- 350,000 Performance Rights Class C subject to the offeree being continuously employed for a period of two years from the grant date and the 30-day Volume Weighted Average Price of Cann Group Limited's ordinary shares as traded on the ASX is greater than \$1.50;
- 400,000 Performance Rights Class C subject to the offeree being continuously employed for a period of two years from the grant date and the 30-day Volume Weighted Average Price of Cann Group Limited's ordinary shares as traded on the ASX is greater than \$2.00; and
- The grant date was 21 November 2017.

Shares issued on exercise of the Performance Rights Class C will be subject to a restriction period of two years during which the shares issued on exercise of the Performance Rights cannot be transferred or otherwise dealt with.

Rights Class D

| Date | Number of Performance Rights | 2018 \$ |
|-------------------------------|------------------------------|----------------|
| Balance 1 July 2017 | – | – |
| 19 January 2018 ^{^^} | 100,000 | 301,000 |
| Balance 30 June 2018 | 100,000 | 301,000 |

^{^^} On 19 January 2018 100,000 Performance Rights Class D were issued to the Company Secretary.

The Performance Rights Class D are subject to the following vesting conditions:

- 100,000 Performance Rights Class D subject to the completion of the Institutional Placement and Share Purchase Plan and not to vest or be exercised prior to 4 May 2019.
- The grant date was 19 January 2018.

No restriction period is applicable to shares issued as a result to the exercise of Performance Rights Class D.

The total vested value as at 30 June 2018 for both Class C and Class D Performance is \$1,043,877.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

13. RELATED PARTY INFORMATION

| | 2018 \$ |
|---|------------------|
| 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: | |
| Aurora Cannabis Inc. | 1,130,621 |
| Payment for consulting fees to Aurora Larssen Projects, Inc. a wholly-owned subsidiary of Aurora Cannabis, Inc. a shareholder and has an employee as a Director of the Company* | |
| Payment for consulting fees (pursuant to Technical Services Agreement) to Aurora Cannabis, Inc. a shareholder and has an employee as a Director of the Company** | 47,280 |
| Total Aurora Cannabis Inc. | 1,177,901 |
| Others | 56,585 |
| Purchase of motor vehicle from Mr Peter Crock, an employee and shareholder | |
| Total | 1,234,486 |

* Aurora Larssen Projects provided design services to the Company's Stage 3 development.

** Aurora Cannabis Inc. provides consultancy services regarding cultivation medicinal cannabis and manufacture of medicinal cannabis products through a Technical Services Agreement.

14. 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 previous corporate office, 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. In July the Company signed a surrender of lease with the landlord to the former corporate office and expects the bank guarantee to be returned within the coming months.

During the year the Company had a bank guarantee of \$12,952 pertaining to the previous corporate office which has been returned by the landlord. Consequently, the term deposit securing that bank guarantee appears in cash and cash equivalents.

15. 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 (CONTINUED)

16. CASH FLOW INFORMATION

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

| | 2018 \$ | 2017 \$ |
|--|--------------------|--------------------|
| Profit/(loss) for the year | (4,725,857) | (2,588,445) |
| <i>Non-cash flows in profit</i> | | |
| Vesting of performance rights Class B | – | 110,304 |
| Share-based payments | 1,043,877 | – |
| Depreciation and loss on sale of assets | 1,063,534 | 124,297 |
| Amortisation | 15,029 | – |
| <i>Movements in working capital</i> | | |
| (Increase)/decrease in trade receivables and other assets | (4,239) | (127,934) |
| (Decrease)/increase in trade and other payables | 438,805 | 207,254 |
| (Increase)/decrease in stock on hand and biological assets | (1,585,660) | (24,927) |
| Net cash outflows from operating activities | (3,754,511) | (2,298,851) |

17. OPERATING LEASE

The Group has three existing operating leases for premises as follows:

Southern Facility

The term of the lease is three years and six months commencing 4 September 2015 and allows for two further terms of three years each. It is assumed in the operating lease commitments below that the Group will renew this lease for a further term three years.

Northern Facility

The term of the lease is three years commencing 1 April 2017.

Corporate Office

The term of the lease is one year commencing 1 July 2018.

All of the leased premises are located in Melbourne, Victoria.

Operating lease commitments are:

| Period | 2018 \$ | 2017 \$ |
|------------------------|------------------|------------------|
| Less than 12 months | 669,945 | 518,021 |
| From one to five years | 664,610 | 834,138 |
| | 1,334,555 | 1,352,159 |

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

18. 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 significant financial risks, which are its liquidity risk, which it does through regularly reviewing rolling cash flow forecasts and examining its levels of available working capital against such forecasts and its interest rate risk exposure.

Liquidity risk

Liquidity risk arises from the possibility that the Group may encounter difficulty in meeting its obligations for its financial liabilities, which at 30 June 2018 were accounts payable with due terms from 0 – 45 days.

Interest rate risk exposure

The consolidated entity's exposure to interest rate risk, which is the risk that a financial instrument's market value will fluctuate as a result of changes in market interest rates, and the effective weighted average interest rates on classes of financial assets and financial liabilities are as follows:

| 2018 | Weighted average effective interest rate % | Floating interest rate \$ | 1 year or less \$ | 1 to 5 years \$ | Over 5 years \$ | Non-interest bearing \$ | Total \$ |
|---|--|---------------------------|-------------------|-----------------|-----------------|-------------------------|-------------------|
| From 1 July 2017 to 30 June 2018 | | | | | | | |
| ASSETS | | | | | | | |
| Cash and Bank Balances | 1.34 | 3,252,971 | – | – | – | 1,124,176 | 4,377,147 |
| Term Deposits | 2.62 | – | 75,357,392 | – | – | – | 75,357,392 |
| Receivables | | – | – | – | – | – | – |
| Total financial assets | | 3,252,971 | 75,357,392 | – | – | 1,124,176 | 79,734,539 |
| LIABILITIES | | | | | | | |
| Trade and other creditors | | – | – | – | – | 927,674 | 927,674 |
| Total financial liabilities | | – | – | – | – | 927,674 | 927,674 |
| Net financial assets (liabilities) | | 3,252,971 | 75,357,392 | – | – | 196,502 | 78,806,865 |

Sensitivity analysis for interest rate risk:

| Effect on profit | \$ 50bps decrease | \$ 50bps increase |
|------------------|-------------------|-------------------|
| | (376,787) | 376,787 |

Market Risk

The Group does not believe it has any material market risk of loss arising from adverse movements of market instruments including foreign exchange and interest rates.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Credit Risk

The Group does not believe it has any material risk from a counterparty defaulting on its contractual obligations or commitments resulting in financial loss as such risk is managed by implementing a policy of only dealing with creditworthy counterparties in accordance with established credit limits for all future transactions with customers. The Group also reviews the overall financial strength of its customers by monitoring publicly available credit information.

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.

19. 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 2018 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 treasury function reports to the board periodically with forecast cash flow information that enables the Board to conduct its capital raising activities in an orderly fashion at a dilutive cost to existing shareholders that is appropriate and reasonable.

20. PARENT ENTITY DISCLOSURES

| Financial Position | 2018 \$ | 2017 \$ |
|---------------------------------|--------------------|--------------------|
| ASSETS | | |
| Current assets | 90,407,525 | 16,911,629 |
| Non-current assets | 14,789 | 25,314 |
| Total assets | 90,422,314 | 16,936,943 |
| LIABILITIES | | |
| Current liabilities | 484,073 | 227,298 |
| Non-current liabilities | 16,369 | 20,567 |
| Total liabilities | 500,442 | 247,865 |
| EQUITY | | |
| Issued capital | 95,081,758 | 20,187,092 |
| Reserves | 1,043,877 | - |
| Accumulated losses | (6,203,763) | (3,498,014) |
| Total equity | 89,921,872 | 16,689,078 |
| Financial Performance | 2018 \$ | 2017 \$ |
| Loss for the year | (2,705,749) | (1,784,294) |
| Other comprehensive income | -- | - |
| Total comprehensive loss | (2,705,749) | (1,784,294) |

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 23 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 2018 and of the performance for the year ended 30 June 2018 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 2018 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: 22 August 2018

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 controlled entities (the Group), which comprises the consolidated statement of financial position as at 30 June 2018, 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 2018 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.

CHARTERED ACCOUNTANTS & ADVISORS

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INDEPENDENT AUDITOR'S REPORT (CONTINUED)



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.

| Depreciation policy for plant and equipment capitalised on leased property | |
|--|---|
| Refer also to notes 1 and 8 of the attached financial report | How our audit addressed the area of focus |
| <p>During the financial year the Group significantly invested in its cultivation capacity through the leasing and enhancement of grow facilities on its leased property.</p> <p>As at 30 June 2018 the Group had two major areas to which it had capitalised its grow facility plant and equipment, being its:</p> <ul style="list-style-type: none"> - Southern Facility; and its - Northern Facility. <p>It has also signed a Heads of Agreement to enter into another lease at Australia Pacific Airports.</p> <p>The lease terms last between 1 and 3 years, with options to extend each by a further 1 to 3 years.</p> <p>The Group's accounting policy for depreciating such plant and equipment is over the term of the useful life of the asset, from when it is held ready for use. Where such assets are on leased property, management determines its right and likelihood of exercising options to extend the lease based upon its future plans. This assumption is therefore important in setting the applicable useful life for the asset and its depreciation charge.</p> | <p>Our audit procedures included:</p> <ul style="list-style-type: none"> - Examining the underlying lease agreements for each material site, including entitlements to exercise options to extend the lease and conditions that have the potential to terminate each lease contract; - Examining the underlying material plant and equipment costs which have been capitalised to determine whether or not such plant and equipment is <i>held and ready for use</i> and therefore subject to depreciation; and - Recalculating the arithmetic accuracy of the depreciation charge taken to the financial statements |

INDEPENDENT AUDITOR'S REPORT (CONTINUED)



| Issue of performance rights to key management personnel | |
|--|---|
| <p>Refer also to notes 1 and 12 of the attached financial report</p> <p>The Group has issued performance rights to members of its executive team, who form part of key management personnel.</p> <p>These performance rights included both market and non-market vesting criteria, including the satisfying of:</p> <ul style="list-style-type: none"> - Service (employment) conditions; - Market-based conditions, tied to achieving share price milestones; and - Non-market based conditions, tied to the satisfactory completion of capital raising activity. <p>The valuation of such performance rights requires significant judgement and expertise, particularly in determining the likelihood of achieving the market and non-market conditions.</p> <p>The Group engaged an independent specialist to appraise the fair value of its share-based payment arrangements that involve market-based conditions.</p> | <p>How our audit addressed the area of focus</p> <p>Our audit procedures included:</p> <ul style="list-style-type: none"> - Agreeing the material terms and conditions of each share-based payment arrangement to plan documentation; - Examining the share-based payment arrangements to determine the appropriateness of identifying each share-based payment arrangement, particularly in segregating out market conditions from non-market conditions and checking the grant date; - Vouching the calculation of share-based payment arrangements with market conditions to reports furnished to the Group by independent specialists; - Assessing the reasonableness of non-market conditions, including attrition and the achieving the capital raising performance goal; - Examining the appropriateness of the amortisation model for accreting share-based payment expense to the profit or loss over the vesting period; and - Reviewing the appropriateness of the disclosure impact of the share-based payment arrangements, particularly for their impact in the Remuneration Report for plan recipients which form part of key management personnel. |

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 2018, 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.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)



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.

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.

A further description of our responsibilities for the audit of these financial statements is located at the Auditing and Assurance Standards Board website at:

http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf

This description forms part of our independent auditor's report.

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 2018.

In our opinion, the Remuneration Report of Cann Group Limited, for the year ended 30 June 2018, complies with section 300A of the *Corporations Act 2001*.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)



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.

William Buck

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

N. Benbow

N. Benbow
Director

Dated this 22nd day of August, 2018

SHAREHOLDER INFORMATION

Equity security holders

As at 17 August 2018 the Company had 139,546,632 ordinary shares on issue. Further details of the Company's equity securities are as follows:

Largest Holders

| Rank | Name | 17 Aug 2018 | % of Issued Capital |
|------|---|--------------------|---------------------|
| 1 | AURORA CANNABIS INC | 31,956,347 | 22.90 |
| 2 | HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED | 7,530,396 | 5.40 |
| 3 | ALLAN McCALLUM/MULLACAM PTY LTD <ATF THE MCCALLUM FAMILY SUPER FUND> | 5,580,000 | 4.00 |
| 4 | WEXFORD RISE PTY LTD <WEXFORD RISE SUPER> | 4,533,334 | 3.25 |
| 5 | MR PHILIP JACOBSEN & MRS MAXINE JACOBSEN <THE JAYESS S/F> | 4,064,518 | 2.91 |
| 6 | CROFTON PARK DEVELOPMENTS PTY LTD <THE BROUGHAM SUPERANNUATION FUND> | 3,284,099 | 2.35 |
| 7 | CG NOMINEES (AUSTRALIA) PTY LTD | 2,540,000 | 1.82 |
| 8 | CITICORP NOMINEES PTY LIMITED | 2,436,936 | 1.75 |
| 9 | DOUG & ANN RATHBONE/GRAPEFULL PTY LTD <ATF THE GRAPEFULL SUPER FUND> | 2,331,185 | 1.67 |
| 10 | MR RAYMOND THOMAS HOBSON & MRS RHONDA ELLEN HOBSON | 2,047,895 | 1.47 |
| 11 | CANACCORD GENUITY (AUSTRALIA) LIMITED | 2,025,000 | 1.45 |
| 12 | ELLERSTON CAPITAL LIMITED <RE OF THE GLOBAL EQUITY MANAGERS FUND> | 2,000,000 | 1.43 |
| 13 | UBS NOMINEES PTY LTD | 1,991,857 | 1.43 |
| 14 | HARDMAIL PTY LTD | 1,681,852 | 1.21 |
| 15 | EGEA PTY LTD/G PEARCE AND B PEARCE <ATF SORF INVESTMENTS FAMILY TRUST> | 1,554,195 | 1.11 |
| 16 | MR ALLAN WAYNE ROHDE & MRS LYNDEL MARGARET ROHDE <THE LYNAL SUPER FUND A/C> | 1,460,000 | 1.05 |
| 17 | INTERDALE PTY LTD <MAPLE SUPER FUND> | 1,350,000 | 0.97 |
| 18 | MR ALLAN WAYNE ROHDE | 1,300,000 | 0.93 |
| 19 | J P MORGAN NOMINEES AUSTRALIA LIMITED | 1,090,230 | 0.78 |
| 20 | TALMETAL PTY LTD | 1,003,728 | 0.72 |
| | Total | 81,761,572 | 58.59 |
| | Balance of register | 57,785,060 | 41.41 |
| | Grand total | 139,546,632 | 100.00 |

SHAREHOLDER INFORMATION (CONTINUED)

Substantial shareholders

The following table shows the substantial holders as notified to the Company in substantial holding notices as at 17 August 2018.

| Name | Noted Date of Change | Number of Equity Securities | Relevant Interest |
|---------------------|----------------------|-----------------------------|-------------------|
| AURORA CANNABIS INC | 25/01/2018 | 31,956,147 | 22.90% |

Distribution of equity securityholders

Holdings distribution

| Range | Number of equity security holders | |
|-------------------|-----------------------------------|----------|
| | Ordinary shares | Options |
| 100,001 and over | 101 | 3 |
| 10,001 to 100,000 | 692 | 0 |
| 5,001 to 10,000 | 767 | 0 |
| 1,001, to 5,000 | 3,467 | 0 |
| 1 to 1,000 | 6,222 | 0 |
| Total | 11,249 | 3 |

Unmarketable Parcels

The number of investors holding less than a marketable parcel of 180 securities (\$2.78 on 17 August 2018) is 1,107 and they hold 151,473 securities.

Voting Rights

The voting rights attaching to each ordinary share 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 17 August 2018.

Restricted securities

Cann Group Limited has 32,720,001 ordinary shares subject to restriction agreements with the Australian Securities Exchange. The restriction period for all restricted ordinary shares on issue ends on 4 May 2019.

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.

CORPORATE DIRECTORY

Company

Cann Group Limited
ACN 603 949 739

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Directors

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Philip Jacobsen
Doug Rathbone
Geoff Pearce
Neil Belot

Company Secretary

Richard Baker

CEO

Peter Crock

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GROUP LIMITED

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