

# **AUSCANN GROUP HOLDINGS LTD**

ABN 33 601 953 860

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## **FINANCIAL REPORT**

### **FOR THE YEAR ENDED**

### **30 JUNE 2016**

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# AUSCANN GROUP HOLDINGS LTD

ABN 33 601 953 860

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# AUSCANN GROUP HOLDINGS LTD

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## DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2016

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The Directors present their report together with the financial statements of AusCann Group Holdings Ltd ("the Company") for the year ended 30 June 2016, and the auditor's report thereon.

### Directors

The following persons were directors of the Company during the financial year and up to the date of this report, unless otherwise stated:

Harry Karelis – appointed 22 September 2014

Malcolm James Washer – appointed 29 September 2014

Elaine Lucy Darby – appointed 25 April 2015

Cheryl Lynn Edwardes – appointed 18 May 2016

Bruce Andrew Linton – appointed 24 May 2016

Bruce Fielding McHarrie – appointed 30 May 2016

Mick Palmer – appointed 28 January 2016, resigned 24 May 2016

### Information on directors

Name: Malcolm James Washer  
Title: Non-executive Chairman (appointed 29 September 2014)  
Qualifications: MBBS, ex Member of the House of Representatives  
Experience and expertise: Dr Washer was a Liberal member of the Australian House of Representatives from 1998 to 2013. He was educated at the University of Western Australia, graduating in 1970 with degrees in medicine and surgery. He was a general practitioner before entering politics & established a number of prominent medical centres in Western Australia. Mal was also past chair of the Alcohol and Other Drugs Council of Australia. He has extensive experience in agricultural and horticultural activities and currently operates a commercial avocado plantation in Western Australia bringing highly relevant medical and horticultural expertise and experience to AusCann.

Name: Elaine Lucy Darby  
Title: Managing Director (appointed 22 April 2015)  
Qualifications: BSc(Hons) LLB(Hons)  
Experience and expertise: Ms Darby holds a Bachelor of Science in Biochemistry & Microbiology, Honours in Molecular Biology and a Bachelor of Laws. Previous roles have included as a lawyer with top tier corporate law firm Clayton Utz, Media and Communications Officer for an Australian Federal Member of Parliament, and Managing Director and Senior Winemaker of Aquila Estate Winery where she was an award winning wine-maker and also involved in international business development and marketing in territories including Singapore, Japan, Canada, the United Kingdom, and the United States.

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## DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2016

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Name: Harry Karelis  
Title: Executive Director (appointed 22 September 2014)/Company Secretary (resigned as Company Secretary on 1 December 2014)  
Qualifications: B.Sc(Hons) MBA Grad.Dip Applied Finance & Investment CFA FFin FAICD  
Experience and expertise: Mr Karelis is the founder of Titan Capital Partners - a privately held investment group involved in a range of projects. He graduated from The University of Western Australia with Bachelors and Honours in Science majoring in Biochemistry and Microbiology as well as a Masters in Business Administration. He is a Fellow of the Financial Services Institute of Australia, a Fellow of the Australian Institute of Company Directors and has qualified as a Chartered Financial Analyst (CFA) from the CFA Institute in the United States.

Prior to establishing Titan, Mr Karelis worked in the financial services industry with roles in financial analysis and funds management both in Australia and overseas including extended periods at Hartley Poynton (now Hartleys) and Challenger Group. He has in excess of 23 years diversified experience in the financial services sector including fundamental analysis, funds management and private equity investing. He has considerable cross-border experience and has acted as a Director on several public and private companies in Australia, Singapore, the United Kingdom and the United States of America. Other Directorships: Velpic Ltd (formerly International Coal Ltd)

Name: Cheryl Lynn Edwardes  
Title: Independent Non-executive (appointed 18 May 2016)  
Qualifications: LL.M, BA, GAICD  
Experience and expertise: Cheryl was the former Attorney-General for Western Australia and Minister for the Environment. Cheryl was most recently Executive General Manager for External Affairs, Government Relations and Approvals at Hancock Prospecting-a company associated with one of Australia's wealthiest individuals.

Cheryl has extensive experience of successful negotiations to ensure that critical primary agreements and government approvals are obtained in a timely fashion. Such agreements and approvals include the Roy Hill Rail State Agreement and the Special Railway Licence; Port Lease and Licence; Native Title Agreements; Environmental Approvals, State and Federal; and many other critical approvals for Hancock Prospecting Pty Ltd and Roy Hill Iron Ore and Infrastructure.

Name: Bruce Andrew Linton  
Title: Non-executive (appointed 24 May 2016)  
Qualifications: BPA  
Experience and expertise: Mr Bruce Linton is the founder, Chairman and CEO of Canopy Growth Corporation, one of the world's leading medical cannabis companies. Canopy Growth, through its subsidiaries Tweed and Bedrocan Canada, is the world's largest producer of legal cannabis, and recently entered into a strategic partnership with AusCann.

Bruce has more than ten years of senior executive experience in the high-tech sector as a founder, executive and board member. He has a proven track record of international success, working extensively with the World Bank and the Asia Development Bank. Bruce enjoys a high profile in the global medicinal cannabis sector and has a demonstrable track record of raising the capital required to build large scale cannabis business.

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## DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2016

Name: Bruce Fielding McHarrie  
Title: Non-executive (appointed 30 May 2016)  
Qualifications: BCom FCA GAICD  
Experience and expertise: Bruce is a highly experienced senior executive and independent company director with a background in the life sciences industry focussed on finance, operations, business and investment management, and strategic planning.

In addition to AusCann, Bruce is a non-executive director of Adherium Limited, an ASX listed digital health technology company, he is Chairman of the Animal Ethics Committee of the child health research organisation, Telethon Kids Institute, and undertakes corporate consulting activities.

Bruce previously served as the Chief Financial Officer, Director of Operations and Director of Strategic Projects with the Telethon Kids Institute in Western Australia. Prior to joining the Institute, Bruce was based in London as an Assistant Director at Rothschild Asset Management in the Bioscience Unit, a life sciences private equity group investing in early stage biotechnology, healthcare and agribusiness companies. He co-founded two institute spin-outs including publicly listed drug discovery company, Phylogica Limited, and has held a number of other non-executive director positions in biotechnology and not-for-profit healthcare organisations.

He is a Fellow of the Institute of Chartered Accountants Australia and New Zealand, holds a Bachelor of Commerce degree from the University of Western Australia, and is a graduate member of the Australian Institute of Company Directors.

### Directors' meetings

Director	Eligible to attend	No. attended
Harry Karelis	5	5
Malcolm Washer	5	5
Elaine Darby	5	5
Bruce McHarrie	0	0
Bruce Linton	0	0
Cheryl Edwardes <sup>1</sup>	0	0
Mick Palmer	4	4

<sup>1</sup> Cheryl attended 2 Board meetings as a guest prior to her appointment as a Director.

### Review and Results of Operations

The loss for the Company after providing for income tax amounted to \$5,811,072 (2015: Loss \$357,277). The significant increase in the loss for the year is largely due to the share based payment expense of \$5,001,065 in relation to the Strategic Alliance Agreement with Canopy Growth Corporation (**Canopy**).

The Strategic Alliance Agreement with Canopy was entered into on 9 May 2016. Canopy was the first publically traded, federally regulated cannabis producer in North America and remains the largest legal cannabis producer in the world. Listed on the TSX Venture Exchange, Canopy has a market capitalisation in excess of Cdn\$550,000,000. Under the arrangement, Canopy will offer its expertise in a number of areas including production, quality assurance and operations, and provide strategic advisory services to the Company in exchange for shares constituting 15% of the issued capital in the Company as well as options to acquire a further 5% of that issued capital.

In November 2015 the Company entered into a research heads of agreement with Phytoplant Research S.L.(**Phytoplant**), a Spanish company that is active in the field of phytotherapy research and specialises in developing industrial chain medicinal plants.

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Phytoplant Research is a private Spanish company which is internationally regarded for producing high quality, proprietary medicinal plants. Phytoplant specialises in techniques for the selection and genetic improvement of medicinal plants, under the standards of Good Agricultural Practice. In addition, Phytoplant has expertise in the extraction, isolation and purification of bioactive plant components to the standards of Good Manufacturing Practice.

Under the agreement, the Company is granted exclusivity in the Australian market over certain strains of interest to it including but not limited to high yielding strains containing particular cannabis compounds of medical interest. The Company is also granted exclusivity in the Australian market for any relevant intellectual property and know-how in terms of extraction protocols that Phytoplant has developed. Phytoplant will be entitled to end-point royalties based on net sales to be negotiated and agreed upon by the parties for these exclusive licences.

The parties will also collaborate on a joint breeding program under which the Company will provide suitable growing conditions and analytical labs either directly or through its other partnerships including but not limited to Murdoch University.

On 5 May 2016, the Company entered into a Memorandum of Understanding for a Research and Development Alliance with Murdoch University. Based in Western Australia, Murdoch University undertakes world-class research in agricultural sciences, including genetics and biotechnology. The University is home to the Western Australian State Agricultural Biotechnology Centre which has platform technologies, world-class facilities for, and world-class researchers in, agricultural research.

The five year research and development alliance focusses on:

- (a) development and cultivation of strains of medicinal cannabis specific to Australian growing conditions using the expertise of the State Agricultural Biotechnology Centre (which is based at Murdoch University); and
- (b) production of whole plant extracts, and testing of therapeutic products to meet the needs of Australian patients.

The Company has entered into a non-binding heads of agreement with privately owned, California-based company, Caziwell Inc./ Aunt Zelda's Group (**Aunt Zelda's**) for exclusive access to the "Aunt Zelda's" brand and product range in the Australian and New Zealand market. Aunt Zelda's Incorporated was established under California law in 2011 and is focussed upon the formulation of high quality cannabis-based medicines. Since inception, Aunt Zelda's has developed significant intellectual property around the appropriate formulations and protocols to treat specific medical conditions and amassed a valuable database of patient records. Considerable brand equity has been established in "Aunt Zelda's" brand with a growing profile in California. Additionally, the parties agree to collaborate on extraction and manufacturing operations so that the Company is the preferred global supplier of input materials and/or finished product of Aunt Zelda's products to other Aunt Zelda's licensees in international markets where it legal to do so.

On 6 May 2016, the Company entered into a preferential supplier agreement with Zelda Therapeutics Pty Ltd (**Zelda**) (Zelda Agreement). Zelda is a specialist clinical-trials focused bio-pharmaceutical company intending to fast-track pre-clinical research and clinical trial activities using cannabinoid-based medicines. Established in August 2015 this special purpose vehicle has secured an exclusive, global licence to a set of human patient data being treated with cannabinoid-based medicines. This data has been generated by a Californian group, Caziwell Inc, incorporating the activities of Aunt Zelda's. The focus of Zelda is to design certain human clinical trials leveraging the already existing anecdotal patient data. Under the agreement the Company is to be Zelda's preferred supplier of GMP grade cannabinoid-based medicines for research and clinical activities conducted in Australia and other global markets. Mr Harry Karelis is a Director and substantial shareholder of Zelda.

The Company and Hidden Garden Sustainable Farms Ltd (**Hidden Garden**) have entered into a non-binding heads of agreement to explore the possibility of cultivation of medicinal cannabis on the Australian Commonwealth territory of Christmas Island for the export market when permitted. Hidden Garden is an Australian based company established to develop horticultural projects focussed on providing affordable, high quality, fresh produce to local communities. Hidden Garden has a focus on sustainable farming in remote communities. Hidden Garden has been granted a 21-year agricultural lease over 55 acres of prime Commonwealth land. Under the agreement Hidden Garden is to provide suitable growing areas to the Company on Christmas Island, including open fields and greenhouses, for the growing of the Company's genetics.

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The Company is continuing to investigate other opportunities in the medical cannabis sector including acquisition or investment in other international plant breeders, producers and suppliers.

The Company is currently establishing clinical studies in Australia to provide quality evidence of the efficacy of the medicinal cannabis products and delivery mechanisms that the Company intends to produce for targeted medical conditions. These studies will assist in development of confidence of the medical community to prescribe these products and for regulators to allow products to be prescribed for targeted medical conditions. The initial focus for clinical research is treatment resistant childhood epilepsy and chronic pain. AusCann is currently developing clinical trial protocols with clinicians for these studies. Medicinal cannabis products will initially be sourced from the Company's Canadian partner Canopy. Once the cultivation, production and manufacture licensing regime is established in Australia, the Company intends to supply clinical studies with its locally developed products.

All of the operations being undertaken in the financial year are to assist with the Company achieving its objectives of:

- (a) undertaking research into, and development of, new medicinal cannabis strains, cultivation and extraction techniques;
- (b) undertaking research into the clinical efficacy of medicinal cannabis products and delivery mechanisms for various medical conditions;
- (c) obtaining relevant licensing for the cost effective cultivation and manufacture of high quality, clinically effective medicinal cannabis in Australia once regulations permit; and
- (d) the provision of relevant information to establish the Australian medical community's trust and confidence in the prescription of AusCann's medicinal cannabis products.

### Financial Position

The net assets of the Company have increased from \$462,933 as at 30 June 2015 to \$2,625,006 as at 30 June 2016.

### Company Secretary

Susan Hunter (BCom, ACA, F Fin, GAICD, AGIA) has held the role of Company Secretary since 1 December 2014.

Ms. Hunter has 20 years' experience in the corporate finance industry and is founder and Managing Director of consulting firm Hunter Corporate Pty Ltd which specialises in the provision of corporate governance and company secretarial advice to ASX listed companies. Ms. Hunter holds a Bachelor of Commerce degree from the University of Western Australia majoring in accounting and finance, is a Member of the Australian Institute of Chartered Accountants, a Fellow of the Financial Services Institute of Australasia, a Member of the Governance Institute of Australia and is a Member of the Australian Institute of Company Directors.

### Principal Activities

The Company is in the start-up phase of medical marijuana cultivation and distribution. The Company is currently in the process of researching and obtaining licences for growing and distributions rights as well as developing appropriate cultivation methods.

There were no significant changes in the activities of the Company during the year.

# AUSCANN GROUP HOLDINGS LTD

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## DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2016

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### State of Affairs

During the year the Company issued convertible notes, recognised in equity, amounting to \$3,322,000.

The Company also entered into a Strategic Alliance Agreement with Canopy Growth Corporation where shares to the value of \$4,399,238 and shares options to the value of \$601,827 were issued as consideration.

The Company entered into an agreement with TW Holdings Ltd (TWH) whereby TWH is to acquire 100% of the Company's issued shares from the Company's shareholders by issuing 3,061,999,999 TWH shares and 600,000,000 TWH performance shares to the Company shareholders and convertible note holders. The performance shares convert into ordinary shares once specified performance milestones have been achieved.

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

### Environmental Regulation

The Company's operations are not subject to significant environmental regulations under either Commonwealth or State legislation.

### Dividends

No dividends were paid or declared during the year (2015: Nil).

### Likely Developments

Information on likely developments in the operations of the Company 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 Company.

### Events Subsequent to Reporting Date

On 31 August 2016, the Company held a general meeting (GM) for shareholders to approve the conversion of the existing issued capital of the Company on the basis that every share be divided into 1,420,947.2923 shares, and where this division results in a fraction of a share being held, the Company authorised to round that fraction up to the nearest whole share. This has resulted in the fully paid ordinary shares converting from 1,497 shares to 2,127,158,108 shares. In addition, the 75 outstanding options to Canopy Growth Corporation (Canopy) were also converted on the same basis to 153,552,779 options with an exercise price of \$0.01.

On 15 September 2016, the Company entered into a deed of termination and release with Gemelli Nominees Pty Ltd (Termination Deed). The Termination Deed terminated the Consultancy Agreement dated January 2015 between AusCann and Gemelli Nominees Pty Ltd trading as Titan Capital Partners (Titan). Under the Consultancy Agreement Titan was to assist in the securing of investment funds and the ultimate public flotation or other capital market event to further the Company's development. Titan's key personnel for undertaking these services was Mr Harry Karelis. Titan was to also utilise the services of Dr Stewart Washer (or his nominee) as a consultant and any equity or cash-based consideration agreed to was to be shared with Dr Washer on a pro rata basis. The Termination Deed provided for a termination fee of \$200,000 plus GST payable to Titan and Dr Washer's nominee on a pro rata basis and has been paid by the Company.

On 28 September 2016, the Company, having secured all required approvals, issued shares upon conversion of the existing convertible notes amounting to \$3,322,000 that were issued 17 March 2016. This resulted in an additional 805,332,528 shares being issued.

Further to the conversion of all convertible notes on 28 September 2016, the Company issued 1,692,360 in shares to Canopy on 28 September 2016. The terms of the Strategic Alliance Agreement (Agreement) between the Company and Canopy dated 9 May 2016, requires that Canopy hold shares constituting 15% of the issued capital in the Company as well as options to acquire a further 5% of that issued capital.

# AUSCANN GROUP HOLDINGS LTD

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## DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2016

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No matter or circumstances, other than the above mentioned, have arisen since the end of the financial year that have significantly affected or may significantly affect the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial years

### Indemnification and Insurance of Officers

The Company has indemnified the directors and executives of the Company for costs incurred, in their capacity as a director or executive, for which they may be held personally liable, except where there is a lack of good faith.

During the financial year, the Company paid a premium in respect of a contract to insure the directors and executives of the Company against a liability to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium

### Proceedings on Behalf of the Company

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

### Share Options

Unissued ordinary shares of the Company under option at the date of this report are as follows:

Grant Date	Expiry Date	Exercise Price*	Number Under Option
9 May 2016	9 May 2019	\$0.01	153,552,779

No person entitled to exercise the options had or has any right by virtue of the option to participate in any share issue of the Company or of any other body corporate.

\*Exercise Price equivalent to the proposed prospectus capital raising price. Refer TWH ASX announcement dated 30 September 2016.

### Shares Issued on the Exercise of Options

There were no shares issued on the exercise of options during the year ended 30 June 2016.

### Auditor's Independence Declaration

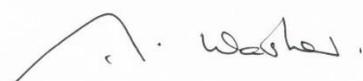
A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out immediately after this directors' report on page 9.

### Auditor

PKF Mack continues in office in accordance with section 327 of the Corporations Act 2001.

This report is made in accordance with a resolution of directors, pursuant to section 298(2)(a) of the Corporations Act 2001.

On behalf of the directors



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Malcolm James Washer  
Chairman



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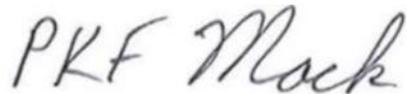
Elaine Darby  
Managing Director

Dated at Perth this 11<sup>th</sup> day of October 2016.

## AUDITOR'S INDEPENDENCE DECLARATION

### TO THE DIRECTORS OF AUSCANN GROUP HOLDINGS LTD

In relation to our audit of the financial report of AusCann Group Holdings Ltd for the year ended 30 June 2016, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.



PKF MACK



SHANE CROSS  
PARTNER

11 OCTOBER 2016  
WEST PERTH,  
WESTERN AUSTRALIA

**AUSCANN GROUP HOLDINGS LTD**

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**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 30 JUNE 2016**

	Note	2016 \$	2015 \$
Interest received		57,257	7,285
<b>Total revenues</b>		<b>57,257</b>	<b>7,285</b>
Employee benefits expense		194,136	-
Finance costs		-	601
Impairment expense		56,221	-
Depreciation expense		181	155
Share based payments expense		5,001,065	-
Consulting fees – Directors		152,500	135,000
Consulting fees – other		123,590	126,353
Legal expenses		173,579	10,893
Other expenses	2	167,057	91,560
<b>Total expenses</b>		<b>5,868,329</b>	<b>364,562</b>
<b>Profit/(loss) before income tax expense</b>		<b>(5,811,072)</b>	<b>(357,277)</b>
Income tax expense/(benefit)	3	-	-
<b>Net profit/(loss) for the year</b>		<b>(5,811,072)</b>	<b>(357,277)</b>
<b>Other comprehensive income, net of tax</b>			
Other comprehensive income		-	-
<b>Total comprehensive income for the year</b>		<b>(5,811,072)</b>	<b>(357,277)</b>

The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

**AUSCANN GROUP HOLDINGS LTD**

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**STATEMENT OF FINANCIAL POSITION  
AS AT 30 JUNE 2016**

	Note	2016 \$	2015 \$
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	4	2,960,890	486,563
Other current assets	5	16,638	36,118
<b>TOTAL CURRENT ASSETS</b>		<b>2,977,528</b>	<b>522,681</b>
<b>NON-CURRENT ASSETS</b>			
Intangible assets	6	-	56,221
Property, plant and equipment		363	544
<b>TOTAL NON-CURRENT ASSETS</b>		<b>363</b>	<b>56,765</b>
<b>TOTAL ASSETS</b>		<b>2,977,891</b>	<b>579,446</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	7	90,720	16,254
Other current liabilities	8	250,000	100,259
Employee benefits	9	12,165	-
<b>TOTAL CURRENT LIABILITIES</b>		<b>352,885</b>	<b>116,513</b>
<b>TOTAL LIABILITIES</b>		<b>352,885</b>	<b>116,513</b>
<b>NET ASSETS</b>		<b>2,625,006</b>	<b>462,933</b>
<b>EQUITY</b>			
Issued capital	10	8,191,528	820,210
Option reserve	11	601,827	-
Retained profits		(6,168,349)	(357,277)
<b>TOTAL EQUITY</b>		<b>2,625,006</b>	<b>462,933</b>

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

# AUSCANN GROUP HOLDINGS LTD

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## STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2016

	Issued capital \$	Option reserve \$	Accumulated losses \$	Total \$
Balance at 22 September 2014	-	-	-	-
Loss after income tax for the period	-	-	(357,277)	(357,277)
Other comprehensive income for the period, net of tax	-	-	-	-
	-	-	(357,277)	(357,277)
<i>Transaction with owners in their capacity as owners</i>				
Contributions of equity, net of transaction costs	820,210	-	-	820,210
<b>Balance at 30 June 2015</b>	<b>820,210</b>	<b>-</b>	<b>(357,277)</b>	<b>462,933</b>
Balance at 1 July 2015	820,210	-	(357,277)	462,933
Loss after income tax for the period	-	-	(5,811,072)	(5,811,072)
Other comprehensive income for the period, net of tax	-	-	-	-
	-	-	(5,811,072)	(5,811,072)
<i>Transactions with owners in their capacity as owners</i>				
Contributions of equity via convertible notes, net of transaction costs	2,972,080	-	-	2,972,080
Share based payment	4,399,238	601,827	-	5,001,065
<b>Balance at 30 June 2016</b>	<b>8,191,528</b>	<b>601,827</b>	<b>(6,168,349)</b>	<b>2,625,006</b>

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

**AUSCANN GROUP HOLDINGS LTD**

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**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 30 JUNE 2016**

	Note	2016 \$	2015 \$
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
Interest received		51,190	7,285
Receipt of exclusivity fee		250,000	-
Payments to suppliers and employees		(698,943)	(384,012)
<b>Net cash used in operating activities</b>		<b>(397,753)</b>	<b>(376,727)</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			
Payments for property, plant and equipment		-	(699)
Payments for intellectual property		-	(21,221)
<b>Net cash used in investing activities</b>		<b>-</b>	<b>(21,920)</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Proceeds from issue of shares		-	835,010
Proceeds from issue of convertible notes		3,322,000	-
Payments for share/convertible note issue transaction costs		(349,920)	(49,800)
Receipt of advance from shareholders		-	100,000
Repayment of shareholder funds		(100,000)	-
<b>Net cash from financing activities</b>		<b>2,872,080</b>	<b>885,210</b>
<b>Net increase in cash and cash equivalents</b>		<b>2,474,327</b>	<b>486,563</b>
Cash and cash equivalents at the beginning of the financial year		486,563	-
<b>Cash and cash equivalents at the end of the financial year</b>	4	<b>2,960,890</b>	<b>486,563</b>

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

# AUSCANN GROUP HOLDINGS LTD

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

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### NOTE 1: SIGNIFICANT ACCOUNTING POLICIES

These financial statements and notes represent those of AusCann Group Holdings Ltd ('the Company') for the year ended 30 June 2016.

AusCann Group Holdings Ltd is a company limited by shares incorporated and domiciled in Australia.

The financial statements were authorised for issue, in accordance with a resolution of directors, on 11 October 2016. The directors have the power to amend and reissue the financial statements.

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

#### **Basis of Preparation**

The Company has elected to adopt the Australian Accounting Standards – Reduced Disclosure Requirements (established by AASB 1053 – “Application of Tiers of Australian Accounting Standards” and AASB 2010-2 – “Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements”).

The financial statements are general purpose financial statements that have been prepared in accordance with Australian Accounting Standards – Reduced Disclosure Requirements and the Corporations Act 2001. AusCann Group Holdings Ltd is a for-profit entity for the purpose of preparing financial statements.

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

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 1(q).

#### **New, revised or amending Accounting Standards and Interpretations adopted**

The Company 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. There has been no significant impact from the adoption of these Standards and/or Interpretations.

Any new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

#### **Accounting Policies**

##### **(a) Revenue**

###### **Interest**

Interest revenue is recognised on an accruals basis.

###### **Other revenue**

Other revenue is recognised when it is received or when the right to receive payment is established.

##### **(b) Income Tax**

The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

# AUSCANN GROUP HOLDINGS LTD

ABN 33 601 953 860

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

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### NOTE 1: SIGNIFICANT ACCOUNTING POLICIES (cont.)

#### Accounting Policies (cont.)

##### (c) Income Tax (cont.)

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

- When the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or
- When the taxable temporary difference is associated with interests in subsidiaries, associates or joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses. The carrying amount of recognised and unrecognised deferred tax assets are reviewed each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entity's which intend to settle simultaneously.

##### (d) Current and Non-Current Classification

Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is current when: it is expected to be realised or intended to be sold or consumed in normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within twelve months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period. All other assets are classified as non-current.

A liability is current when: it is expected to be settled in normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within twelve months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period. All other liabilities are classified as non-current. Deferred tax assets and liabilities are always classified as non-current.

##### (e) 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 Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the Statement of Financial Position are shown inclusive of GST.

# AUSCANN GROUP HOLDINGS LTD

ABN 33 601 953 860

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

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### NOTE 1: SIGNIFICANT ACCOUNTING POLICIES (cont.)

#### Accounting Policies (cont.)

##### (f) Cash and Cash Equivalents

For the purposes of the statements of cash flows, cash includes cash on hand and at call deposits with banks or financial institutions, investments in money market instruments maturing within less than two months, net of bank overdrafts.

##### (g) Other Receivables

Other receivables are recognised at amortised cost, less any provision for impairment.

##### (h) Intangibles

Intangible assets are initially measured at cost. Intangible assets with indefinite useful lives are tested for impairment annually. Such intangibles are not amortised. The useful life of an intangible asset with an indefinite life is reviewed each reporting period to determine whether indefinite life assessment continues to be supportable. The Company has determined that its intangibles have an indefinite useful life. The intangibles are subject to annual impairment testing.

##### (i) Property, Plant and Equipment

Plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated on a straight-line basis to write off the net cost of each item of property, plant and equipment over their expected useful lives as follows:

Plant and equipment	4 years
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The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

##### (j) Trade and Other Payables

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether or not billed and are stated at cost.

##### (k) Employee Benefits

Provision is made for the Company's liability for employee benefits arising from services rendered by employees to reporting date. Employee benefits expected to be settled within one year together with entitlements arising from wages and salaries and annual leave which will be settled after one year, have been calculated at undiscounted amounts based on remuneration wage and salary rates that the Company expects to pay as at each reporting date, including related on-costs.

Other employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those entitlements. Consideration is given to expected future increases in wage and salary rates, including related on-costs and expected settlement dates based on turnover history.

Contributions are made by the Company to superannuation funds of each employee's choosing and are charged as expenses when incurred.

##### (l) Issued capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

# AUSCANN GROUP HOLDINGS LTD

ABN 33 601 953 860

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

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### NOTE 1: SIGNIFICANT ACCOUNTING POLICIES (cont.)

#### Accounting Policies (cont.)

##### (m) Impairment

The carrying amounts of the Company's assets other than deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment, and if so, the asset's recoverable amount is estimated.

An impairment loss is recognised in the Statement of Profit or Loss and Other Comprehensive Income unless an asset has been previously revalued, in which case the impairment loss is recognised as a reversal to the extent of the previous revaluation with the balance remaining through the profit and loss.

Impairment of receivables is not recognised until objective evidence is available that a loss event has occurred. The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

##### (n) Fair value measurement

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

##### (o) Share based payments

Equity settled share based compensation benefits are provided to employees or other suppliers.

Equity settled transactions are awards of shares, or options over shares, that are provided to employees or other suppliers in exchange for the rendering of services or provision of goods.

The cost of equity settled transactions are measured at fair value on grant date. Fair value is independently determined the binomial options pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option, together with non-vesting conditions that do not determine whether the company received the services or goods that entitle the employees or other suppliers to receive payment. No account is taken of any other vesting conditions.

The cost of equity settled transactions is recognised as an expense with a corresponding increase in equity over the vesting period. The cumulative charge to profit or loss is calculated based on the grant date fair value of the award, the best estimate of the number of awards that are likely to vest and the expired portion of the vesting period. The amount recognised in profit or loss for the period is the cumulative amount calculated at each reporting date less amounts already recognised in previous periods.

# AUSCANN GROUP HOLDINGS LTD

ABN 33 601 953 860

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

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### NOTE 1: SIGNIFICANT ACCOUNTING POLICIES (cont.)

#### Accounting Policies (cont.)

##### (p) Comparative figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

##### (q) Critical Accounting Estimates and Judgements

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

##### *Impairment of capitalised intellectual property costs*

The directors have assessed the cost for impairment of the capitalised intellectual property costs at reporting date by examining whether there are any indicators of impairment. At 30 June 2015 there were no indicators of impairment, however at 30 June 2016 indicators became apparent and the capitalised intellectual property costs were considered fully impaired.

##### *Share based payments*

The Company measures the cost of equity settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using the Binomial model taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity settled share based payments would have no impact on the carrying amount of assets and liabilities with the next annual reporting period, but may impact on profit or loss and equity.

**AUSCANN GROUP HOLDINGS LTD**

ABN 33 601 953 860

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2016**

	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
<b>NOTE 2: OTHER EXPENSES</b>		
Other expenses includes the following specific expenses:		
Auditor fees	22,380	8,500
Bad debts	6,493	-
Foreign exchange gain/loss – realised	501	-
Other operating expenses	137,683	83,060
	<u>167,057</u>	<u>91,560</u>

**NOTE 3: INCOME TAX EXPENSE/(BENEFIT)***Reconciliation between tax expense and pre-tax profit*

Profit/(loss) before tax	(5,811,072)	(357,277)
Income tax calculated at 30% (2015: 30%)	(1,743,322)	(107,183)
Share based payment expense	1,500,320	-
Impairment expense	16,866	-
Tax losses not recognised	226,136	107,183
Income tax expense on pre-tax Profit/(Loss)	<u>-</u>	<u>-</u>

**NOTE 4: CASH AND CASH EQUIVALENTS**

Cash at bank	2,960,880	486,553
Cash on hand	10	10
	<u>2,960,890</u>	<u>486,563</u>

**NOTE 5: OTHER CURRENT ASSETS**

Accrued interest	6,067	-
Prepayments	6,262	1,874
GST refundable	4,309	27,492
Other current asset	-	6,752
	<u>16,638</u>	<u>36,118</u>

**NOTE 6: INTANGIBLE ASSETS**

Intellectual property*	56,221	56,221
Less: Impairment	(56,221)	-
	<u>-</u>	<u>56,221</u>

\* Capitalised intellectual property has been fully impaired at 30 June 2016 due to no longer being utilised by the Company.

*Reconciliations*

Reconciliations of the written down values at the beginning and end of the current financial year are set out below:

	<b>Intellectual property \$</b>	<b>Total \$</b>
Balance at 1 July 2015	56,221	56,221
Additions	-	-
Impairment	(56,221)	(56,221)
Balance at 30 June 2016	<u>-</u>	<u>-</u>

**AUSCANN GROUP HOLDINGS LTD**

ABN 33 601 953 860

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2016**

	2016 \$	2015 \$
<b>NOTE 7: TRADE AND OTHER PAYABLES</b>		
Trade payables and accrued expenses	57,917	16,254
PAYG payable	31,097	-
Superannuation payable	1,706	-
	<u>90,720</u>	<u>16,254</u>

Due to the short term nature of these payables, their carrying value is assumed to approximate their fair value.

**NOTE 8: OTHER CURRENT LIABILITIES**

Loan – Tascann	-	259
Amounts due to shareholders	-	100,000
Unearned income	250,000	-
	<u>250,000</u>	<u>100,259</u>

**NOTE 9: EMPLOYEE BENEFITS**

Provision for annual leave	<u>12,165</u>	-
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**NOTE 10: ISSUED CAPITAL**

	2016 \$	2015 \$	2016 Number of Shares	2015 Number of Shares
(a) Ordinary shares – fully paid, net of costs	5,219,448	820,210	1,497	1,174
(b) Convertible notes, net of costs	2,972,080	-		
	<u>8,191,528</u>	<u>820,210</u>		

**(a) Ordinary shares – fully paid**

*Movements in ordinary share capital*

Details	Date	No. of shares	Issue price	\$ Value
Balance	22 Sept 2014	-	-	-
Issue of shares	Sept 2014	1,000	\$0.01	10
Issue of shares	Oct 2014 – Feb 2015	167	\$5,000	835,000
Share based payment	Oct 2014 – Feb 2015	7	\$5,000	35,000
Share issue costs	Oct 2014 – Feb 2015	-	-	(49,800)
Balance	30 June 2015	<u>1,174</u>		820,210
Share based payment	9 May 2016	323	\$13,620	4,399,238
Balance	30 June 2016	<u>1,497</u>		<u>5,219,448</u>

# AUSCANN GROUP HOLDINGS LTD

ABN 33 601 953 860

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

### NOTE 10: ISSUED CAPITAL (cont.)

#### *Ordinary shares*

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the Company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

#### **(b) Convertible notes**

Convertible notes to the value of \$3,322,000 were issued during the year ended 30 June 2016. Issue costs relating to these convertible notes totalled \$349,920.

The convertible notes cannot be redeemed by the subscriber and can only be converted into equity. The convertible notes do not entitle the subscriber to vote at general meetings. Before conversion, the subscriber is not entitled to participate in rights issues, any return of capital, bonus issue or capital reconstruction.

### NOTE 11: OPTION RESERVE

	2016	2015	2016*	2015
	\$	\$	Number of Options	Number of Options
Options reserve	601,827	-	75	-
	<u>601,827</u>	<u>-</u>		

\*Pre-conversion as at 30 June 2016. Further to the General Meeting held 31 August 2016 the equivalent post conversion number is 153,552,779.

#### *Movements in options reserve*

Details	Date	No. of shares	Fair Value	\$ Value
Balance	22 Sept 2014	-	-	-
Balance	30 June 2015	-	-	-
Issue of options <sup>(1)</sup>	9 May 2016	75	\$8,024	601,827
Balance	30 June 2016	<u>75</u>		<u>601,827</u>

#### *Options reserve*

The options reserve is used to recognise the value of share based payments provided to employees, directors or suppliers for their services provided.

For the options granted during the year, the binomial valuation model inputs used to determine the fair value at the grant date are as follows:

	(1)
Grant date	9 May 2016
Expiry date	9 May 2019
Spot price	\$13,620
Exercise price	\$13,620
Expected volatility	90%
Dividend yield	0%
Risk-free rate	1.58%
Vesting conditions	N/A
Fair value at grant date	\$8,024

Set out below is a summary of options granted by the Company:

# AUSCANN GROUP HOLDINGS LTD

ABN 33 601 953 860

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

### NOTE 11: OPTIONS RESERVE (cont.)

Grant date	Expiry date	Exercise price	Balance at start of year	Granted	Exercised	Expired / Forfeited	Balance at end of year
2016:							
09/05/2016	09/05/2019	\$13,620	-	75	-	-	75
			-	75	-	-	75

### NOTE 12: COMMITMENTS

The Company had no operating lease or other commitments at 30 June 2016.

### NOTE 13: KEY MANAGEMENT PERSONNEL

#### *Compensation*

The aggregate compensation made to directors and other members of key management personnel of the Company is set out below:

	2016	2015
	\$	\$
Aggregate compensation	346,635	135,000
	<u>346,635</u>	<u>135,000</u>

### NOTE 14: RELATED PARTY TRANSACTIONS

#### *Key management personnel*

Disclosures relating to key management personnel are set out in note 13.

#### *Transactions with related parties*

Other than the key management personnel aggregate compensation disclosed in note 13, the following transactions occurred with related parties:

Payments for goods and services:		
Payments for costs of raising capital	207,570	-

#### *Receivable from and payable to related parties*

At 30 June 2016 (2015: Nil) there were no amounts receivable from and payable to related parties.

#### *Loans to/from related parties*

At 30 June 2016 (2015: Nil) there were no loans to or from related parties.

#### *Terms and conditions*

All transactions were made on normal commercial terms and conditions and at market prices.

### NOTE 15: FAIR VALUE MEASUREMENT

The carrying amounts of trade and other receivables and trade and other payables are assumed to approximate their fair values due to their short-term nature.

# AUSCANN GROUP HOLDINGS LTD

ABN 33 601 953 860

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

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### NOTE 16: EVENTS SUBSEQUENT TO REPORTING DATE

On 31 August 2016, the Company held a general meeting (GM) for shareholders to approve the conversion of the existing issued capital of the Company on the basis that every share be divided into 1,420,947.2923 shares, and where this division results in a fraction of a share being held, the Company authorised to round that fraction up to the nearest whole share. This has resulted in the fully paid ordinary shares converting from 1,497 shares to 2,127,158,108 shares. In addition, the 75 outstanding options to Canopy Growth Corporation (Canopy) were also converted on the same basis to 153,552,779 options with an exercise price of \$0.01.

On 15 September 2016, the Company entered into a deed of termination and release with Gemelli Nominees Pty Ltd (Termination Deed). The Termination Deed terminated the Consultancy Agreement dated January 2015 between AusCann and Gemelli Nominees Pty Ltd trading as Titan Capital Partners (Titan). Under the Consultancy Agreement Titan was to assist in the securing of investment funds and the ultimate public flotation or other capital market event to further the Company's development. Titan's key personnel for undertaking these services was Mr Harry Karelis. Titan was to also utilise the services of Dr Stewart Washer (or his nominee) as a consultant and any equity or cash-based consideration agreed to was to be shared with Dr Washer on a pro rata basis. The Termination Deed provided for a termination fee of \$200,000 plus GST payable to Titan and Dr Washer's nominee on a pro rata basis and has been paid by the Company.

On 28 September 2016, the Company, having secured all required approvals, issued shares upon conversion of the existing convertible notes amounting to \$3,322,000 that were issued 17 March 2016. This resulted in an additional 805,332,528 shares being issued.

Further to the conversion of all convertible notes on 28 September 2016, the Company issued 1,692,360 in shares to Canopy on 28 September 2016. The terms of the Strategic Alliance Agreement (Agreement) between the Company and Canopy dated 9 May 2016, requires that Canopy hold shares constituting 15% of the issued capital in the Company as well as options to acquire a further 5% of that issued capital.

No matter or circumstance, other than the matter disclosed above, has arisen since 30 June 2016 that has significantly affected, or may significantly affect the operation of the Company in future financial years, or the results of those operations in future financial years, or the state of affairs of the Company in future financial years.

### NOTE 17: CONTINGENT ASSETS AND LIABILITIES

There are no contingent assets or liabilities as at 30 June 2016 (2015: Nil).

### NOTE 18: COMPANY DETAILS

The registered office and principal place of business of the Company is:

85 Carabooda Road  
Carabooda, WA 6033

# AUSCANN GROUP HOLDINGS LTD

ABN 33 601 953 860

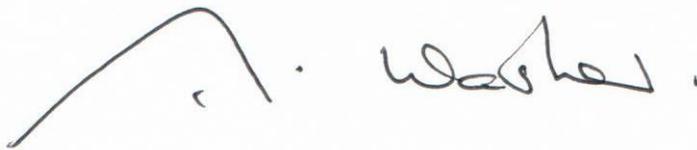
## DIRECTORS' DECLARATION

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The Directors of the company declare that:

1. the financial statements and notes, set out on pages 11 to 24, are in accordance with the Corporations Act 2001, including:
  - (a) giving a true and fair view of the financial position of the Company as at 30 June 2016 and of its performance, for the year ended on that date; and
  - (b) complying with Australian Accounting Standards Reduced Disclosure Requirements and the Corporations Regulations 2001; and
2. 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 Board of Directors:

A handwritten signature in black ink, appearing to read 'M. Washer', is written on a light-colored background.

---

Malcolm James Washer  
Chairman

Dated at Perth this 11<sup>th</sup> day of October 2016.

## INDEPENDENT AUDIT REPORT TO THE MEMBERS OF AUSCANN GROUP HOLDINGS LTD

### Report on the Financial Report

We have audited the accompanying financial report of AusCann Group Holdings Ltd (the Company), which comprises the statement of financial position as at 30 June 2016, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies, other explanatory information, and the directors' declaration.

### Directors' Responsibility for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards – Reduced Disclosure Requirements 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 is free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

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

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

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

### Independence

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

## Opinion

In our opinion:

- (a) the financial report of AusCann Group Holdings Ltd is in accordance with the Corporations Act 2001, including:
  - (i) giving a true and fair view of the Company's financial position as at 30 June 2016 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards – Reduced Disclosure Requirements and the Corporations Regulations 2001.



PKF MACK



SHANE CROSS  
PARTNER

11 OCTOBER 2016  
WEST PERTH,  
WESTERN AUSTRALIA