# APPENDIX 4E

Unaudited Preliminary Final Report for the period ending 30 June 2017

## AUSCANN GROUP HOLDINGS LTD

| | |
|---|---|
| ABN | 72 008 095 207 |

**1 Details of the reporting period**

| | |
|---|---|
| Reporting Period | Year ended 30 Jun 2017 |
| Previous Corresponding Period | Year ended 30 Jun 2016 |

**2 Results for announcement to the market**

| | Financial Results | | % | | $A |
|---|---|---|---|---|---|
| 2.1 | Revenues from ordinary activities | Up | 72% | to | 98,584 |
| 2.2 | Loss from ordinary activities after tax attributable to members | Up | 137% | to | 13,759,741 |
| 2.3 | Net loss for the period attributable to members | Up | 137% | to | 13,759,741 |
| 2.4 | Final and interim dividends | Nil | | | |
| 2.5 | Record date for determining entitlements to the dividend | N/A | | | |
| 2.6 | Brief explanation of any of the figures reported above | Refer attached preliminary final consolidated financial statements and commentary at point 10 below | | | |

**3 Statement of profit or loss and other comprehensive income**

Refer to attached preliminary final consolidated financial statements

**4 Statement of financial position**

Refer to attached preliminary final consolidated financial statements

**5 Statement of cash flows**

Refer to attached preliminary final consolidated financial statements

**6 Statement of changes in equity**

Refer to attached preliminary final consolidated financial statements

**7 Dividends**

No dividends declared in current or prior year.

**8 Details of dividend reinvestment plans**

N/A

**9 Net tangible assets per ordinary share**

| | Current Period | Previous Corresponding Period * |
|---|---|---|
| (cents per share) | 5.33 | 0.12 |

* The number of shares on issue in the current and previous periods has changed substantially due to the acquisition of AusCann (refer to point 10). Using the 2017 number of shares on issue in the 2016 calculation would give a result of 0.97 cents per share for the previous period.

**10 Details of entities over which control has been gained or lost**

On 19 January 2017, the Company completed the acquisition of AusCann Group Holdings Ltd. The name of the Company changed on that date from TW Holdings Limited to AusCann Group Holdings Ltd, and the name of the acquired company AusCann Group Holdings Ltd was subsequently changed to AusCann Operations Pty Ltd. The legal subsidiary AusCann Operations Pty Ltd was deemed to be the acquirer for accounting purposes as it obtained control of the legal parent. Accordingly, the consolidated financial statements of the Group have been prepared as a continuation of the financial statements of the legal subsidiary. The comparative information provided in this Appendix 4E and the preliminary final consolidated financial statements is that of AusCann Operations Pty Ltd.

**11 Details of associates and joint venture entities**

The Company has a 50% interest in DayaCann, which is a for-profit joint venture established to grow medicinal cannabis in Chile.

**12 Any other significant information needed by an investor to make an informed assessment of the entity's financial performance and position**

N/A

**13 Foreign entities**

Refer to attached preliminary final consolidated financial statements

**14 Commentary on results**

AusCann Group Holdings Limited and its controlled entity (the Group) incurred a consolidated net loss from operations for the financial year of $13,759,741 (2016: $5,811,072). The loss included a $7,159,307 non-cash listing fee resulting from the acquisition and $3,677,998 of non-cash share-based payments. The net assets of the Group increased to $15,461,909 at 30 June 2017 from $2,625,006 as at 30 June 2016 as a result of the acquisition and capital raisings. Substantial progress was made by the Company during the year towards achieving significant milestones. Through its relationship with Canadian partner Canopy Growth, the largest producer of medicinal cannabis in North America, AusCann is well positioned for the future. This in combination with DayaCann, its licensed joint-venture in Chile, positions AusCann to be a leading player in the global medicinal cannabis market. During the year the Company formed an exclusive strategic partnership with Tasmanian Alkaloids Pty Ltd. This partnership provides AusCann with the opportunity to fast track domestic manufacture and further strengthens its position within the global industry. AusCann was awarded an Australian medicinal cannabis licence from the Office of Drug Control, under the Narcotic Drugs Act 1967, making AusCann one of the select few companies to be granted a licence. The directors believe the Group is in a strong and stable financial position to expand and grow its current operations. For more information, refer to the attached preliminary final consolidated financial statements.

**15 Audit**

The consolidated financial statements are in the process of being audited.

# AUSCANN GROUP HOLDINGS LTD

**(formerly TW Holdings Limited)**

ABN 72 008 095 207

UNAUDITED

PRELIMINARY FINAL ASX REPORT

FOR THE YEAR ENDED

30 JUNE 2017

## Review of operations

Cannabis has a long history of therapeutic use dating back some 5000 years, joining many other plant-based ancient medicines. Many of the investigations into clinical use of cannabis today align with observational studies dating back to the 1800s. A variety of societal and technological developments led to the stigmatisation of cannabis in the 1920s, followed by an international prohibition in the 1940s which derailed research into potential therapeutic uses. The characterisation of the cannabinoids in the 1960s and the discovery of their natural target, the endocannabinoid system, in the 1990s, re-ignited interest in medical use. Over the past decade however there has been increased focus on the medicinal properties of cannabis, and a growing body of clinical research attesting to its potential for a range of symptoms and conditions. This has seen several countries change public policy, endorsing laws that allowed for therapeutic use of cannabis.

In Australia, the *Narcotic Drugs Regulations 2016* was released late that year, and gave effect to the regulatory framework for the licencing of cultivation, production and manufacture of cannabis for medicinal and scientific purpose, as provided for under the preceding amendments of the *Narcotic Drugs Act 1967*. By end of 2016, AusCann had submitted applications to the Office of Drug Control (ODC) for licences across the supply chain (grow, production, drug manufacture). Substantial progress was made by the company in the first half of 2017 to demonstrate to the ODC a robust and compliant operational framework, covering security, record keeping, supply chain management and governance, under the application review procedure for a domestic operation. This culminated in the granting of a cultivation and production licence in May 2017.

Concurrently, AusCann entered into a binding heads of agreement to establish an international base of operations in Chilé, through the DayaCann joint venture with Fundación Daya. The joint venture provided AusCann with the immediate ability to commence grow operations with a strong local partner holding all necessary licences and permits. The first Chilean crop was planted in November 2016, and harvested on target in April 2017. Over 300kg of dried medicinal cannabis was provided to a GMP-certified manufacturing facility for processing into medicinal cannabis formulations. These activities complement AusCann's proposed domestic operations, and provide diversified exposure to the rapidly growing global medicinal cannabis sector from a stable, progressive and low-cost base.

In May 2017 AusCann announced a heads of agreement with Tasmanian Alkaloids Pty Ltd to form an exclusive strategic partnership. Owned by SK Capital Partners, Tasmanian Alkaloids is one of the world's largest manufacturers of controlled substances, producing alkaloid raw material grown in Tasmania. With established and modern manufacturing facilities which are compliant with Good Manufacturing Practice standards, and an international network within the pharmaceutical sector, Tasmanian Alkaloids provides AusCann with the opportunity to fast track domestic manufacture and position itself within the global industry.

The financial year also saw the clarification of processes at the Federal and State/Territory level for patient access to medicinal cannabis in Australia. As a prescription only medicine, the knowledge base of the medical community in this rapidly evolving space, and their willingness to pursue authorisations, is paramount for patient access. In June this year, the Company welcomed Dr Danial Schecter as its Chief Medical Advisor. Dr Schecter has worked extensively within the field having founded the largest referral only clinic in Canada that specialises in cannabinoid medicine. Coupled to his clinical experience, Dr Schecter has lectured at over one hundred events internationally, and trained dozens of physicians.

Medical education forms a key part of AusCann's strategies, and Dr Schecter will assist the rollout of the Medical Outreach Program. The Program aims to further the medical community's understanding of how cannabinoids are currently being used therapeutically in other jurisdictions, to enable doctors to make informed decisions on prescription of medicinal cannabis. The Program commenced with a series of education seminars in Sydney, Brisbane and Perth which had strong attendance from interested practitioners focussed on pain management and palliative care.

## Future developments, prospects and business strategies

The focus of AusCann remains the provision of high quality, economical and clinically validated cannabis medicines, with emphasis in the near term on progressing existing strategic partnerships and a program of engagement with the Australian medical community.

## 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 (2016: nil).

## Events subsequent to reporting date

AusCann was granted its manufacturing licence in August 2017, making the Company one of the first to have a complete and fully-Australian supply chain to provide medicinal cannabis products to patients. The Company's domestic licence to operate has also been expanded with the granting of a cultivation and production licence to the AusCann – Tasmanian Alkaloids strategic partnership.

Supporting the Chief Medical Officer and Medical Outreach Program, AusCann has appointed three Medical Liaison Managers, operating nationally, to provide scientific education to the medical community and facilitate data discussions in therapeutic areas relevant to the Company. Commencing early September, the Outreach Team will be conducting a second series of education seminars in Adelaide, Sydney, Melbourne and Perth, as well as in-field medical training of clinicians.

A consultation by the Office of Drug Control seeking comment on the export of Australian cultivated and manufactured medicinal cannabis products closed in July 2017. Export of domestic product is not currently allowed but was envisaged in the second reading speech in Parliament outlining the Narcotic Drugs Amendment Act 2016, allowing for 'a provision for exports to be addressed at a later date'. On 8 August 2017, the ODC announced that it had received over 40 written submission and that there was overwhelming support for allowing export. AusCann remains watchful of developments in this space.

Other than as identified above, no events occurring subsequent to the end of financial year have significantly affected, or may significantly affect, the operations of the Company in subsequent 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.

### 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 |
|---|---|---|---:|
| 19 January 2017 | 19 January 2020 | \$0.20 | 7,677,639 |
| 19 January 2017 | 19 January 2020 | \$0.21 | 150,000 |
| 11 April 2017 | 11 April 2018 | \$0.936 | 1,500,000 |

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.

### Shares issued on the exercise of options

No shares were issued on exercise of options during the year ended 30 June 2017.

### Corporate governance

The Board has adopted the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations, to the extent they are applicable to the Company.

The Company's corporate governance policies are outlined on its website at http://www.auscann.com.au/investor-centre/corporate-governance.html.

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

| | Note | 2017<br>$ | 2016<br>$ |
|---|---|---|---|
| Interest revenue | | 98,584 | 57,257 |
| Other income | 2 | 351,209 | - |
| Employee benefits expense | | (759,292) | (194,136) |
| Listing fee (excess deemed consideration for acquisition) | 14 | (7,159,307) | - |
| Share-based payments expense | 15 | (3,677,998) | (5,001,065) |
| Joint venture expenses | | (75,121) | - |
| Termination fee | | (200,000) | - |
| Consulting fees – Directors | | (161,900) | (152,500) |
| Consulting fees – other | | (792,538) | (123,590) |
| Legal expenses | | (317,543) | (173,579) |
| Travel and accommodation | | (265,112) | (77,387) |
| Impairment of investment in DayaCann | 8 | (239,101) | - |
| Impairment of intangible assets | | - | (56,221) |
| Depreciation expense | | (121) | (181) |
| Other expenses | 2 | (561,501) | (89,670) |
| **Total expenses** | | **(14,209,534)** | **(5,868,329)** |
| **Loss before income tax expense** | | **(13,759,741)** | **(5,811,072)** |
| Income tax expense | 3 | - | - |
| **Net loss for the year** | | **(13,759,741)** | **(5,811,072)** |
| **Other comprehensive income, net of tax** | | | |
| Other comprehensive income | | - | - |
| **Total comprehensive loss for the year** | | **(13,759,741)** | **(5,811,072)** |
| **Earnings per share** | | | |
| Basic loss per share (cents per share) | 4 | (0.90) | (0.29) |
| Diluted loss per share (cents per share) | 4 | (0.90) | (0.29) |

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

## STATEMENT OF FINANCIAL POSITION
## AS AT 30 JUNE 2017

| | Note | 2017<br>$ | 2016<br>$ |
|---|---|---|---|
| **CURRENT ASSETS** | | | |
| Cash and cash equivalents | 6 | 15,076,882 | 2,960,890 |
| Other receivables | 7 | 141,161 | 16,638 |
| **Total Current Assets** | | **15,218,043** | **2,977,528** |
| **NON-CURRENT ASSETS** | | | |
| Investment in DayaCann | 8 | 1,006,395 | - |
| Property, plant and equipment | | 242 | 363 |
| **Total Non-Current Assets** | | **1,006,637** | **363** |
| **Total Assets** | | **16,224,680** | **2,977,891** |
| **CURRENT LIABILITIES** | | | |
| Trade and other payables | 9 | 711,089 | 90,720 |
| Other current liabilities | 10 | - | 250,000 |
| Provisions | 11 | 51,682 | 12,165 |
| **Total Current Liabilities** | | **762,771** | **352,885** |
| **Total Liabilities** | | **762,771** | **352,885** |
| **NET ASSETS** | | **15,461,909** | **2,625,006** |
| **EQUITY** | | | |
| Issued capital | 12 | 33,519,536 | 8,191,528 |
| Share-based payment reserve | 13 | 1,268,636 | 601,827 |
| Accumulated losses | | (19,326,263) | (6,168,349) |
| **TOTAL EQUITY** | | **15,461,909** | **2,625,006** |

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

## STATEMENT OF CHANGES IN EQUITY
## FOR THE YEAR ENDED 30 JUNE 2017

| | Issued capital $ | Share-based payment reserve $ | Accumulated losses $ | Total $ |
|---|---|---|---|---|
| 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) |
| *Transactions with owners in their capacity as owners* | | | | |
| Issue of convertible notes, net of transaction costs | 2,972,080 | - | - | 2,972,080 |
| Share based payment | 4,399,238 | 601,827 | - | 5,001,065 |
| **Balance at 30 June 2016** | **8,191,528** | **601,827** | **(6,168,349)** | **2,625,006** |
| Balance at 1 July 2016 | 8,191,528 | 601,827 | (6,168,349) | 2,625,006 |
| Loss after income tax for the period | - | - | (13,759,741) | (13,759,741) |
| Other comprehensive income for the period, net of tax | - | - | - | - |
| | - | - | (13,759,741) | (13,759,741) |
| *Transactions with owners in their capacity as owners* | | | | |
| Deemed value of shares issued in acquisition (refer to Note 14) | 6,023,624 | - | - | 6,023,624 |
| Issue of shares, net of costs (refer to Note 12) | 19,304,384 | - | - | 19,304,384 |
| Issue of options (refer to Note 15) | - | 1,268,636 | - | 1,268,636 |
| Transfer of option reserve to accumulated losses | - | (601,827) | 601,827 | - |
| **Balance at 30 June 2017** | **33,519,536** | **1,268,636** | **(19,326,263)** | **15,461,909** |

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

## STATEMENT OF CASH FLOWS
## FOR THE YEAR ENDED 30 JUNE 2017

| | Note | 2017 $ | 2016 $ |
|---|---|---|---|
| **CASH FLOW FROM OPERATING ACTIVITIES** | | | |
| Interest received | | 87,148 | 51,190 |
| Government grants and incentives | | 10,396 | - |
| Receipt of exclusivity fee | | - | 250,000 |
| Payments to suppliers and employees | | (3,045,919) | (698,943) |
| **Net cash used in operating activities** | 18 | **(2,948,375)** | **(397,753)** |
| **CASH FLOW FROM INVESTING ACTIVITIES** | | | |
| Payments for investment in DayaCann | | (816,359) | - |
| Pre-acquisition loan to TWH | | (164,910) | - |
| Cash in TWH on acquisition | | 36,690 | - |
| **Net cash used in investing activities** | | **(944,579)** | **-** |
| **CASH FLOW FROM FINANCING ACTIVITIES** | | | |
| Proceeds from issue of shares | | 17,000,000 | - |
| Proceeds from issue of convertible notes | | - | 3,322,000 |
| Payments for capital raising costs | | (991,054) | (349,920) |
| Repayment of shareholder funds | | - | (100,000) |
| **Net cash from financing activities** | | **16,008,946** | **2,872,080** |
| **Net increase in cash and cash equivalents** | | 12,115,992 | 2,474,327 |
| Cash and cash equivalents at the beginning of the financial year | | 2,960,890 | 486,563 |
| **Cash and cash equivalents at the end of the financial year** | 6 | **15,076,882** | **2,960,890** |

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

## NOTE 1: SIGNIFICANT ACCOUNTING POLICIES

These financial statements and notes represent those of AusCann Group Holdings Ltd and its controlled entity (collectively “the Company”) for the year ended 30 June 2017.

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

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

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001. The consolidated financial report complies with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

The Company is a for-profit entity for financial reporting purposes under Australian Accounting Standards. The financial report is presented in Australian dollars, which is the Company’s functional and presentational currency. 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(p).

### Reverse acquisition

On 19 January 2017, AusCann Group Holdings Ltd (formerly TW Holdings Limited), the legal parent, completed the acquisition of AusCann Operations Pty Ltd (formerly AusCann Group Holdings Ltd). The legal subsidiary AusCann Operations Pty Ltd was deemed to be the acquirer for accounting purposes as it obtained control of the legal parent. The transaction was not deemed to be a business combination, as TW Holdings Ltd was not considered to be a business under AASB 3: *Business Combinations.*

Accordingly, the consolidated financial statements of the Group have been prepared as a continuation of the financial statements of the legal subsidiary AusCann Operations Pty Ltd with no fair value adjustments. The comparative information provided in the consolidated financial statements is that of AusCann Operations Pty Ltd.

AusCann Operations Pty Ltd was deemed to have issued shares in exchange for the net assets of AusCann Group Holdings Ltd, together with AusCann Group Holdings Ltd’s listing status. The listing status does not qualify for recognition as an intangible asset and therefore the excess of deemed consideration paid over the net tangible assets acquired has been expensed in profit or loss as a listing fee.

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

The Company has adopted 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.

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by the Company for the year ended 30 June 2017. Those that may be relevant to the Company are outlined the following table.

## NOTE 1: SIGNIFICANT ACCOUNTING POLICIES (continued)

### New, revised or amending Accounting Standards and Interpretations (continued)

| Title | Summary of change | Application date of standard | Application date for Group |
|---|---|---|---|
| AASB 9 Financial Instruments | AASB 9 includes requirements for a simpler approach for classification and measurement of financial assets compared with the requirements of AASB 139.<br><br>The main changes are described below.<br><br>(a) Financial assets that are debt instruments will be classified based on:<br>(1) The objective of the entity’s business model for managing the financial assets;<br>(2) The characteristics of the contractual cash flows.<br>(b) Allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument.<br>(c) Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases.<br>(d) Where the fair value option is used for financial liabilities the change in fair value is to be accounted for as follows:<br>➢ The change attributable to changes in credit risk are presented in other comprehensive income (OCI)<br>➢ The remaining change is presented in profit or loss.<br><br>The impact of this standard will depend on the Company’s financial assets and liabilities at the time of application. | 1 January 2018 | 1 July 2018 |
| AASB 15 Revenue from Contracts with Customers | The core principle of AASB 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard introduces a 5-step approach to revenue recognition:<br><br>Step 1: Identify the contract(s) with the customer.<br>Step 2: Identify the performance obligations in the contract.<br>Step 3: Determine the transaction price.<br>Step 4: Allocate the transaction price to the performance obligations in the contract.<br>Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.<br><br>As the Company is in the development stage and currently has no customers, this standard would have no effect on its current financial statements. | 1 January 2018 | 1 July 2018 |

## NOTE 1: SIGNIFICANT ACCOUNTING POLICIES (continued)

### New, revised or amending Accounting Standards and Interpretations (continued)

| Title | Summary of change | Application date of standard | Application date for Group |
|---|---|---|---|
| AASB 16 Leases | The key features of the standard are:<br>• Lessees are required to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value.<br>• A lessee measures right-of-use assets similarly to other non-financial assets and lease liabilities similarly to other financial liabilities.<br>• Assets and liabilities arising from a lease are initially measured on a present value basis. The measurement includes non-cancellable lease payments and payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease.<br><br>A lessor continues to classify its leases as operating leases or finance leases, and to account for these two types of leases differently. Enhanced disclosure requirements will improve information disclosed about a lessor's risk exposure.<br><br>The Company will recognise a right-of-use asset and liability for any leases it has at the date of application of the standard. Depreciation of the lease assets and interest on the lease liability will be recognised in profit or loss. | 1 January 2019 | 1 January 2019 |
| AASB 2014-10 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture | The amendments clarify that a full gain or loss is recognised when a transfer to an associate or joint venture involves a business as defined in AASB 3 Business Combinations. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture.<br><br>There will be no impact on the financial statements when these amendments are first adopted because they apply prospectively to sales or contributions of assets occurring after the application date. | 1 January 2018 | 1 July 2018 |
| AASB 2016-1 Recognition of Deferred Tax Assets for Unrealised Losses | Clarifies the requirements on recognition of deferred tax assets for unrealised losses on debt instruments measured at fair value.<br><br>The Company does not have debt instruments measured at fair value at this time. | 1 January 2017 | 1 July 2017 |
| AASB 2016-2 Disclosure Initiative: Amendments to AASB 107 | The amendments require entities to provide disclosures about changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. | 1 January 2017 | 1 July 2017 |

## NOTE 1: SIGNIFICANT ACCOUNTING POLICIES (continued)

### New, revised or amending Accounting Standards and Interpretations (continued)

| Title | Summary of change | Application date of standard | Application date for Group |
|---|---|---|---|
| AASB 2016-5 Clarification and Measurement of Share-based Payment Transactions | This standard clarifies how to account for certain types of share-based payments, including:<br>• The effect of vesting and non-vesting conditions on the measurement of cash-settled share-based payments<br>• A modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.<br><br>The Company will apply the standard to any applicable share-based payments it makes after the date of application. | 1 January 2018 | 1 July 2018 |
| AASB 2017-1 Transfers of Investment Property, Annual Improvements 2014-16 Cycle and Other Amendments | The amendments clarify certain requirements in various standards, including measuring and associate or joint venture at fair value [AASB 128]. | 1 January 2018 | 1 July 2018 |

**NOTE 1: SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Accounting Policies**

**(a) Revenue**

*Interest*
Interest revenue is recognised on an accruals basis.

*Government grants*
Government grants are recognised when there is reasonable assurance that the grant will be received and all attached conditions will be complied with.

*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.

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.

## NOTE 1: SIGNIFICANT ACCOUNTING POLICIES (continued)

### Accounting Policies (continued)

#### (c) 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.

#### (d) 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.

#### (e) Other receivables

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

#### (f) 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 plant and equipment over their expected useful lives as follows:

| | |
|---|---|
| Office equipment | 4 years |

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

#### (g) Interests in joint ventures

A joint venture is a type of joint arrangement whereby the parties that have joint control have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Company’s investment in its joint venture is accounted for using the equity method. Under the equity method, the investment in the joint venture is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Company’s share of net assets of the joint venture since the acquisition date.

The Company’s share of the joint venture’s results is reported in profit or loss.

#### (h) 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.

## NOTE 1: SIGNIFICANT ACCOUNTING POLICIES (continued)

### Accounting Policies (continued)

#### (i) 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.

#### (j) 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.

#### (k) 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 profit or loss 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.

## NOTE 1: SIGNIFICANT ACCOUNTING POLICIES (continued)

### Accounting Policies (continued)

### (l) 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.

### (m) 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.

### (n) Comparatives

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

## NOTE 1: SIGNIFICANT ACCOUNTING POLICIES (continued)

### Accounting Policies (continued)

### (o) 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.

*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 a 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.

*Impairment of non-financial assets*
The Company assesses impairment of non-financial assets at each reporting date by evaluating conditions specific to the Company and to the particular asset that may lead to impairment. If an impairment trigger exists, the recoverable amount of the asset is determined. This involves value-in-use calculations, which incorporate key estimates and assumptions.

*Income taxes*
Judgement is required in assessing whether deferred tax assets are recognised in the statement of financial position. Deferred tax assets are recognised only when it is considered probable that they will be recovered via the generation of sufficient future taxable profits.

*Estimation of useful lives of assets*
The Company determines the estimated useful lives and related depreciation and amortisation charges for its plant and equipment. The useful lives could change significantly due to technical innovation or some other unforeseen event.

*Employee benefits provision*
The liability for employee benefits expected to be settled more than 12 months from the reporting date are recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees at the reporting date. In determining the present value of the liability, estimates of attrition rates and pay increases through promotion and inflation have been taken into account.

*Valuation of joint venture assets*
The Company has a 50% interest in DayaCann, which is a for-profit joint venture established to grow medicinal cannabis in Chile. An independent valuation as at 30 June 2017 has been undertaken of the biological assets, being inventory and mother plants. These valuations have been conducted in accordance with applicable accounting standards, in particular AASB13 *Fair Value Measurement* and AASB141 *Agriculture*. The findings of this valuation are currently being audited. The significant assumptions used in determining the fair value of medicinal cannabis plants in the valuation have been outlined in Note 8 of this report: ‘Interest in Joint Venture’.

## NOTE 2: OTHER INCOME AND EXPENSES

| | 2017 $ | 2016 $ |
|---|---|---|
| **Other income** | | |
| Exclusivity fee | 250,000 | - |
| Share of DayaCann profit (refer to Note 8) | 90,813 | - |
| R&D income | 10,396 | - |
| | 351,209 | - |
| | | |
| **Other expenses** | | |
| Licenses and permits | 98,657 | - |
| ASIC, ASX and share registry fees | 88,248 | 979 |
| Advertising and marketing | 76,943 | 15,834 |
| Occupancy expenses | 38,354 | - |
| Other expenses | 259,299 | 72,857 |
| | 561,501 | 89,670 |

## NOTE 3: INCOME TAX EXPENSE

| | 2017 $ | 2016 $ |
|---|---|---|
| **Reconciliation between tax expense and pre-tax profit** | | |
| Loss before tax | (13,759,741) | (5,811,072) |
| Income tax benefit calculated at 27.5% (2016: 28.5%) | (3,783,929) | (1,656,156) |
| Adjusted for: | | |
| Listing fee (excess deemed consideration on acquisition) | 1,968,809 | - |
| Share-based payments | 1,011,449 | 1,425,304 |
| Impairment expense | 65,753 | 16,023 |
| Other non-deductible expenses | 119,404 | 17,618 |
| Share of DayaCann profit | (24,974) | - |
| Tax losses not recognised | 643,488 | 197,211 |
| Income tax expense | - | - |

Deferred tax assets and liabilities have not been recognised in respect of the following:

| | 2017 $ | 2016 $ |
|---|---|---|
| **Deferred tax assets** | | |
| Business-related costs | 390,762 | 114,591 |
| Accrued expenses and payables | 6,850 | 1,626 |
| Provisions | 14,213 | 3,467 |
| Carry-forward revenue tax losses | 896,645 | 280,807 |
| Deferred tax assets used to offset deferred tax liabilities | (4,814) | (1,729) |
| Deferred tax assets not recognised | (1,303,656) | (398,762) |
| | - | - |
| **Deferred tax liabilities** | | |
| Accrued interest | 4,814 | 1,729 |
| Deferred tax assets used to offset deferred tax liabilities | (4,814) | (1,729) |
| | - | - |

The tax benefits of the above deferred tax assets will only be obtained if:

a) The Company derives future assessable income of a nature and of an amount sufficient to enable the benefits to be utilised;
b) The Company continues to comply with the conditions for deductibility imposed by law; and
c) No changes in income tax legislation adversely affect the Company in utilising the benefits.

The Company has tax losses arising in Australia of $3,260,526 (2016: $985,289) that are available indefinitely for offset against future taxable profits, subject to meeting eligibility criteria within the Income Tax Assessment Act. Net deferred tax assets have not been brought to account as it is not probable within the immediate future that taxable profits will be available against which the deferred tax assets could be recognised.

| | 2017 $ | 2016 $ |
|---|---|---|

## NOTE 4: EARNINGS PER SHARE

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

| | 2017 | 2016 |
|---|---|---|
| Basic loss attributable to ordinary equity holders of the parent | 13,759,741 | 5,811,072 |
| | **Number** | **Number** |
| Weighted average number of ordinary shares used in the calculation of basic and diluted earnings per share | 1,535,675,977 | 1,977,067,146 * |

* The 2016 weighted average number of shares is reported on a post-conversion basis.

No securities are currently classified as dilutive potential ordinary shares. The options on issue are anti-dilutive, since their inclusion would reduce the loss per share.

## NOTE 5: SEGMENT DISCLOSURES

At this stage of its development, the Company operates in one business segment, being the research and development of medicinal cannabis.

The Company has established activities in more than one geographical area, however those activities support the research and development conducted by the consolidated entity and are currently not considered material for the purposes of segment reporting.

The internal management reports that are reviewed by the Board of Directors, who are identified as the chief operating decision makers, are those of the consolidated entity as a whole.

## NOTE 6: CASH AND CASH EQUIVALENTS

| | $ | $ |
|---|---|---|
| Cash at bank and in hand | 15,076,882 | 2,960,890 |
| | 15,076,882 | 2,960,890 |

## NOTE 7: OTHER RECEIVABLES

| | | |
|---|---|---|
| GST receivable | 121,429 | 4,309 |
| Accrued interest | 17,504 | 6,067 |
| Prepayments | 2,228 | 6,262 |
| | 141,161 | 16,638 |

| | **2017** | **2016** |
|---|---|---|
| | **$** | **$** |

## NOTE 8: INTEREST IN JOINT VENTURE

The Company has a 50% interest in DayaCann which is a for-profit joint venture established to grow medicinal cannabis in Chile. As the entity is a jointly controlled entity it has been treated as a joint venture under AASB131 *Interests in Joint Ventures*, with the Company's investment in DayaCann accounted for using the equity method in the consolidated financial statements. An independent valuation as at 30 June 2017 has been undertaken of the biological assets, being inventory and mother plants, and plant and equipment. The findings of this valuation are currently being audited.

The significant management estimates and assumptions used in determining the value for financial reporting purposes of medicinal cannabis inventory are as follows:

- fair value less based on estimated market price;
- estimated costs to sell inventory;
- wastage and spoilage risk of plants based on their various growth stages;
- estimate of percentage of costs incurred compared to the total costs incurred at the point of harvest;
- estimate of percentage of costs incurred for each stage of plant growth; and
- estimate of total costs incurred post-harvest.

The significant management estimates and assumptions used in determining the value for financial reporting purposes of mother plants are as follows:

- estimated total costs incurred to grow the plants;
- estimate of useful life and age of plants; and
- estimate of plant salvage value.

On average, the grow cycle is 13 weeks. All plants were harvested as agricultural produce (i.e. medicinal cannabis). Management estimates the harvest yields for the plants at various stages of growth. These estimates are, by their nature, subject to change. From November 2016 to June 2017, DayaCann produced 444 kg of dried flowers (buds). At the valuation date, there were no plants in the growing phase that are expected to produce a harvest. A total of 52 mother plants, each seven months old, were owned by DayaCann at valuation date with an average useful life of two years, with minimal salvage value. Mother plants can produce multiple harvests. The time frame from when mother plants are unpacked up to the time clones have been harvested is approximately five months. For this valuation, the amortisation period was assessed as two months for the existing plants.

Summarised statement of financial position of DayaCann:

| | 2017 | 2016 |
|---|---|---|
| Cash and cash equivalents | 57,028 | - |
| Trade and other receivables | 225,491 | - |
| Inventories | 787,876 | - |
| Other current assets | 21,243 | - |
| Intangible assets other than goodwill | 1,118,630 | - |
| Plant and equipment | 105,314 | - |
| Trade and other payables | (298,567) | - |
| Provisions for employee benefits | (4,225) | - |
| Net assets / equity | 2,012,790 | - |
| AusCann's 50% share of DayaCann's net assets | 1,006,395 | - |
| AusCann's carrying amount of the investment in DayaCann | 1,006,395 | - |

| | 2017 $ | 2016 $ |
|---|---|---|

## NOTE 8: INTEREST IN JOINT VENTURE (continued)

Summarised statement of profit or loss of DayaCann:

| | 2017 $ | 2016 $ |
|---|---|---|
| Other income | 449,390 | - |
| Administration costs | (267,764) | - |
| Profit for the period | 181,626 | - |
| AusCann's 50% share of DayaCann's profit for the period | 90,813 | - |

The Company recorded impairment of $239,101 to reduce the carrying value of its investment in DayaCann to equal its 50% share of DayaCann's net assets.

## NOTE 9: TRADE AND OTHER PAYABLES

| | 2017 $ | 2016 $ |
|---|---|---|
| Trade payables and accrued expenses | 631,334 | 57,917 |
| PAYG and superannuation payable | 79,755 | 32,803 |
| | 711,089 | 90,720 |

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

## NOTE 10: OTHER CURRENT LIABILITIES

| | 2017 $ | 2016 $ |
|---|---|---|
| Unearned income | - | 250,000 |

## NOTE 11: PROVISIONS

| | 2017 $ | 2016 $ |
|---|---|---|
| *Current* | | |
| Provision for annual leave | 51,682 | 12,165 |

## NOTE 12: ISSUED CAPITAL

| | 2017 $ | 2016 $ | 2017 Number of Shares | 2016 Number of Shares* |
|---|---|---|---|---|
| (a) Ordinary shares – fully paid, net of costs | 33,519,536 | 5,219,448 | 271,372,772 | 2,127,158,108 |
| (b) Convertible notes, net of costs | - | 2,972,080 | | |
| | 33,519,536 | 8,191,528 | | |

* The 2016 number of shares is reported on a post-conversion basis. Each share was divided into 1,420,947.2923 shares on 31 August 2016.

### (a) Ordinary shares – fully paid

*Movements in ordinary share capital*

| Details | Date | Number | $ |
|---|---|---|---|
| Opening balance | 30 June 2015 | 1,174 | 820,210 |
| Share-based payment | 9 May 2016 | 323 | 4,399,238 |
| Closing balance | 30 June 2016 | 1,497 | 5,219,448 |
| | | | |
| Conversion of number of shares | 31 Aug 2016 | 2,127,156,611 | - |
| Conversion of convertible notes | 28 Sep 2016 | 805,332,528 | 2,972,080 |
| Issue of shares to Canopy | 28 Sep 2016 | 1,692,360 | - |
| Acquisition of former AusCann Group Holdings Ltd | 19 Jan 2017 | 146,709,182 | 6,023,624 |
| Elimination of former AusCann Group Holdings Ltd shares upon reverse acquisition | 19 Jan 2017 | (2,934,182,996) | - |
| Shares on issue in former TWH Holdings Ltd at acquisition date | 19 Jan 2017 | 30,117,785 | - |
| Public offer | 19 Jan 2017 | 25,000,000 | 5,000,000 |
| Share-based payments to advisors | 19 Jan 2017 | 14,521,229 | 2,904,246 |
| Conversion of performance shares and rights | 10 May 2017 | 31,024,576 | 391,192 |
| Placement | 24 & 25 May 2017 | 24,000,000 | 12,000,000 |
| Share issue costs | Jan & May 2017 | - | (991,054) |
| Closing balance | 30 June 2017 | 271,372,772 | 33,519,536 |

## NOTE 12: ISSUED CAPITAL (continued)

### (a) Ordinary shares – fully paid (continued)

*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. They were converted into ordinary shares on 28 September 2016.

### (c) Performance Shares

28,230,345 performance shares were issued on acquisition. These shares converted to ordinary shares upon satisfaction of the performance conditions on 10 May 2017, when the Company was granted a license to cultivate medical cannabis under the *Narcotic Drugs Act 1967*.

## NOTE 13: RESERVES

*Share-based payments reserve*
The share-based payments reserve is used to recognise the value of share-based payments provided to directors or suppliers for services provided.

*Performance rights reserve*
The performance rights reserve was used to recognise the value of 2,794,231 performance rights issued to advisors. These performance rights converted to ordinary shares upon satisfaction of the performance conditions on 10 May 2017, when the Company was granted a license to cultivate medical cannabis under the *Narcotic Drugs Act 1967*.

## NOTE 14: REVERSE ACQUISITION OF AUSCANN

AusCann Group Holdings Ltd (formerly TW Holdings Limited) acquired 100% of the shares of AusCann Operations Pty Ltd (formerly AusCann Group Holdings Ltd) on 19 January 2017 by issuing 146,709,182 ordinary shares and 28,230,345 performance shares to AusCann and Canopy shareholders and convertible note holders, and 7,677,639 options expiring 19 January 2020 to Canopy shareholders. Refer to Note 15 for further details of the options issued.

As described in the accounting policy in Note 1, the legal subsidiary AusCann Operations Pty Ltd was deemed to be the acquirer for accounting purposes as it obtained control of the legal parent. The transaction was not deemed to be a business combination, as TW Holdings Ltd was not considered to be a business under AASB 3: *Business Combinations.*

The transaction was therefore accounted for under AASB2: *Share-based Payments,* whereby AusCann Operations Pty Ltd was deemed to have issued shares in exchange for the net assets of AusCann Group Holdings Ltd, together with AusCann Group Holdings Ltd's listing status.

The value of deemed shares issued has been determined as the notional number of equity instruments that the shareholders of AusCann Operations Pty Ltd would have had to issue to AusCann Group Holdings Ltd to give the owners of AusCann Group Holdings Ltd the same percentage ownership in the combined entity. This has been determined to be $6,909,700.

The listing status does not qualify for recognition as an intangible asset and has therefore been expensed in profit or loss as a listing fee, calculated as follows:

| | $ |
|---|---|
| Deemed consideration | 6,909,700 |
| Negative net fair value of assets and liabilities acquired | 249,607 |
| Listing fee (deemed excess consideration) | 7,159,307 |

The pre-acquisition equity balances of AusCann Group Holdings Ltd were eliminated against this increase in share capital of $7,159,307 on consolidation.

The fair values of the identifiable assets and liabilities of AusCann Group Holdings Ltd as at the date of acquisition were:

| | $ |
|---|---|
| **Assets** | |
| Cash | 36,690 |
| GST receivable | 31,922 |
| Prepayments | 24,662 |
| **Liabilities** | |
| Trade and other payables | (177,971) |
| Loan from AusCann Operations Pty Ltd | (164,910) |
| **Total identifiable net deficiency at fair value** | **(249,607)** |

### Costs related to the acquisition

Costs related to the acquisition of $283,315 were incurred by AusCann Group Holdings Ltd (formerly TW Holdings Limited) prior to acquisition date. Further acquisition-related costs of $408,193 in cash and $3,295,438 in share-based payments were incurred by the consolidated entity post-acquisition. Refer to Note 15 for details of the share-based payments.

## NOTE 15: SHARE-BASED PAYMENTS

### Share-based payments during the year ended 30 June 2017

(a) **Ordinary shares issued to advisors**

14,521,229 ordinary shares were issued to advisors on 19 January 2017. The fair value of each share was deemed to be 20.00 cents.

(b) **Performance rights issued to advisors**

2,794,231 performance rights were issued to advisors on 19 January 2017. The fair value of each right was deemed to be 14.00 cents per right, taking into account the following assumptions:

| | |
|---|---|
| Expiry date | 19 July 2018 |
| Exercise price | Nil |
| Expected volatility | 90% |
| Dividend yield | Nil |
| Risk-free rate | 1.61% |
| Likelihood of achieving performance conditions | 70% |

(c) **Director options**

150,000 options were issued to former directors on 19 January 2017. The fair value of each option was calculated at 11.33 cents per option using a binomial model and the following assumptions:

| | |
|---|---|
| Expiry date | 19 January 2020 |
| Exercise price | $0.21 |
| Expected volatility | 90% |
| Dividend yield | Nil |
| Risk-free rate | 1.58% |

(d) **Options issued to Canopy shareholders**

7,677,639 options were issued to Canopy shareholders on 19 January 2017. The fair value of each option was calculated at 11.54 cents per option using a binomial model and the following assumptions:

| | |
|---|---|
| Expiry date | 19 January 2020 |
| Exercise price | $0.20 |
| Expected volatility | 90% |
| Dividend yield | Nil |
| Risk-free rate | 1.58% |

(e) **Options issued to advisors**

1,500,000 options were issued to advisors in consideration of investor relations services on 11 April 2017. The fair value of each option was calculated at 24.37 cents per option using a binomial model and the following assumptions:

| | |
|---|---|
| Expiry date | 19 January 2020 |
| Exercise price | $0.936 |
| Expected volatility | 90% |
| Dividend yield | Nil |
| Risk-free rate | 1.58% |

**NOTE 15: SHARE-BASED PAYMENTS continued**

The expense arising from share-based payments was $3,677,998 (2016: $5,001,065), relating to ordinary shares, performance rights and options issued to advisors and former directors. The options issued to Canopy shareholders formed part of the consideration for the acquisition and the value of those options was eliminated on consolidation.

| | **$** |
|---|---|
| *Share-based payments expensed:* | |
| Ordinary shares issued to advisors | 2,904,246 |
| Performance rights issued to advisors | 391,192 |
| Options issued to former directors | 16,995 |
| Options issued to advisors | 365,565 |
| | 3,677,998 |

The following table illustrates the number and weighted average exercise prices (WAEP) of share options granted as share-based payments on issue during the year. The 2016 options are shown on a post-conversion basis.

| | **2017 number** | **2017 WAEP ($)** | **2016 number** | **2016 WAEP ($)** |
|---|---|---|---|---|
| Outstanding 1 July | 153,552,779 | 0.01 | - | - |
| Granted during the year | 9,327,639 | 0.32 | 153,552,779 | 0.01 |
| Exercised during the year | - | - | - | - |
| Cancelled during the year | (153,552,779) | (0.01) | - | - |
| Outstanding 30 June | 9,327,639 | 0.32 | 153,552,779 | 0.01 |

The weighted average remaining contractual life for the share-based payment options outstanding as at 30 June 2017 was 2.24 years (2016: 2.82 years).

The range of exercise prices for share-based payment options outstanding as at 30 June 2017 was $0.20 to $0.936 (2016: $0.01).

**Share-based payments during the year ended 30 June 2016**

75 options (pre-conversion) were issued to Canopy shareholders on 9 May 2016. The fair value of options granted was calculated at $8,024 using a binomial model and the following assumptions:

| | |
|---|---|
| Expiry date | 9 May 2019 |
| Exercise price | $13,620 |
| Expected volatility | 90% |
| Dividend yield | Nil |
| Risk-free rate | 1.58% |

These options were converted on 31 August 2016 to 153,552,779 options with an exercise price of $0.01. They were cancelled and replaced with the options issued to Canopy shareholders described in Note 15(d).

**NOTE 16: COMMITMENTS**

The Company had no commitments at 30 June 2017 or 30 June 2016.

## NOTE 17: RELATED PARTY TRANSACTIONS

### *Key management personnel*

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

| | 2017 | 2016 |
|---|---|---|
| | $ | $ |
| Short-term benefits [1] | 712,403 | 437,702 |
| Post-employment benefits | 38,733 | 16,843 |
| Share-based payments [1] | 793,535 | - |
| | 1,544,672 | 454,545 |

1 Short-term benefits and share-based payments include amounts paid to directors for consulting services in relation to the 2017 acquisition and the 2016 issue of convertible notes.

### *Transactions with related parties*

| | Amounts paid for services | Amounts owed at 30 June |
|---|---|---|
| | $ | $ |
| **Year ended 30 June 2017** | | |
| Biologica Ventures Pty Ltd [1] | 1,228,576 | 47,667 |
| Mal Washer Nominees Pty Ltd [2] | 38,354 | 2,781 |
| **Year ended 30 June 2016** | | |
| Biologica Ventures Pty Ltd [1] | 99,660 | - |

1 Biologica Ventures Pty Ltd provides consulting services to the Company. The director of Biologica Ventures Pty Ltd is Dr Stewart Washer, who is the son of chairman Dr Mal Washer and brother of managing director Elaine Darby. $776,540 was paid in the form of ordinary shares and performance rights. Refer to Note 15 for details of the share-based payments.

2 Mal Washer Nominees Pty Ltd provides office space to the Company on a monthly tenancy basis. The directors of Mal Washer Nominees Pty Ltd are chairman Dr Mal Washer and managing director Elaine Darby.

*Terms and conditions*

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

## NOTE 18: NOTES TO THE STATEMENT OF CASH FLOWS

### (a) Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents include cash on hand and deposits at call, net of outstanding bank overdrafts.

**Reconciliation of operating loss after tax to net cash used in operating activities**

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| Operating loss after income tax | (13,759,741) | (5,811,072) |
| | | |
| Adjusted for: | | |
| Depreciation | 121 | 181 |
| Listing fee (excess deemed consideration on acquisition) | 7,159,307 | - |
| Share-based payments | 3,677,998 | 5,001,065 |
| Impairment of investment in DayaCann | 239,101 | - |
| Impairment of intangible assets | - | 56,221 |
| Share of DayaCann profit | (90,813) | - |
| | | |
| *Changes in operating assets and liabilities* | | |
| (Increase) / decrease in receivables | (99,861) | 19,480 |
| Increase / (decrease) in trade and other payables | 135,996 | 74,466 |
| Increase / (decrease) in other current liabilities | (250,000) | 249,741 |
| Increase / (decrease) in provisions | 39,517 | 12,165 |
| | (2,948,375) | (397,753) |

### (b) Non-cash investing and financing activities

AusCann Group Holdings Ltd acquired 100% of the shares of AusCann Operations Pty Ltd on 19 January 2017 by issuing 146,709,182 ordinary shares and 28,230,345 performance shares to AusCann and Canopy shareholders and convertible note holders, and 7,677,639 options expiring 19 January 2020 to Canopy shareholders. Refer to Notes 14 and 15 for further details.

## NOTE 19: FINANCIAL INSTRUMENTS

### Capital risk management
The Company manages its capital to ensure that the Company will be able to continue as a going concern while maximising the return to stakeholders through optimising the debt and equity balance.

### Financial risk management
The Company's management team coordinates access to domestic financial markets, monitors and manages the financial risks relating to the operations of the Company and identifies any exposures by degree and magnitude of risks. These risks include credit risk, liquidity and cash flow interest rate risk and currency risk. The Company actively pursues avenues to minimise the effect of these risks.

### Categories of financial instruments

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| *Financial Assets* | | |
| Cash and cash equivalents | 15,076,882 | 2,960,890 |
| Other receivables (excluding prepayments) | 138,933 | 10,376 |
| *Financial Liabilities* | | |
| Trade and other payables | 711,089 | 90,720 |

### Foreign currency risk
The Company undertakes certain transactions denominated in United States dollars and Canadian dollars and is exposed to foreign currency risk through foreign exchange rate fluctuations.

The Company's exposure to foreign currency risk at 30 June 2017 is shown in the following table.

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| *Financial Liabilities* | | |
| Trade and other payables denominated in US Dollars | 404,235 | - |
| Trade and other payables denominated in Canadian Dollars | 68,269 | - |

*Foreign currency risk sensitivity analysis*
The following sensitivity analysis is calculated using the foreign currency risk exposures in existence at the reporting date. The 5% sensitivity is based on reasonably possible changes over a financial year, using an observed range of actual historical rates, for the AUD/USD and AUD/CAD exchange rates.

At 30 June 2017, if the exchange rates had moved as illustrated in the table below, with all other variables held constant, post-tax profit and equity would have been affected as follows:

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| AUD/USD + 5 % | (19,249) | - |
| AUD/USD - 5 % | 21,276 | - |
| AUD/CAD + 5 % | (3,251) | - |
| AUD/CAD - 5 % | 3,593 | - |

**NOTE 19: FINANCIAL INSTRUMENTS continued**

**Credit risk management**
Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate. The Company's exposure and the credit ratings of its counterparties are continuously monitored. Credit exposure is controlled by counterparty limits that are reviewed periodically.

The Company does not have a significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The credit risk on liquid funds and borrowings is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

**Fair value of financial instruments**
The fair value of short-term financial assets and financial liabilities approximate their carrying values because of their short term to maturity.

The Company currently has no long-term financial assets or borrowings.

**Interest rate risk management**
The Company is exposed to interest rate risk as it holds cash deposits at floating interest rates. Exposure to interest rate risk arises on the Company's cash and cash equivalents.

*Interest rate sensitivity analysis*
The sensitivity analysis has been determined based on the exposure to interest rates at the reporting date and the stipulated change taking place at the beginning of the financial year and held constant throughout the year. The directors have determined that a 50 basis point increase or decrease represents management's assessment of the possible changes in interest rates.

At reporting date, if the interest rates had been 50 basis points higher or lower and all other variables were held constant, the Company's net profit would have been increased by $75,384 and decreased by $75,384 respectively (2016: $14,804). This is attributable to the Company's exposure to interest rates on its variable rate deposits.

**Liquidity risk management**
Ultimate responsibility for liquidity risk management rests with the board of directors. The Company manages liquidity by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

**Maturity profile of financial instruments**
The following tables detail the Company's remaining contractual maturity for its non-derivative financial liabilities. The financial liabilities represent undiscounted cash flows based on the earliest date on which the Company can be required to pay.

| | Less than 1 year<br>$ | 1 to 5 years<br>$ | 5+ years<br>$ | Total<br>$ |
|---|---|---|---|---|
| **2017** | | | | |
| *Financial Liabilities* | | | | |
| Trade payables | 711,089 | - | - | |
| 2016 | | | | |
| *Financial Liabilities* | | | | |
| Trade payables | 90,720 | - | - | |

## NOTE 20: CONTINGENT ASSETS AND LIABILITIES

There are no contingent assets or liabilities as at 30 June 2017 (2016: nil).

## NOTE 21: AUDITOR REMUNERATION

The auditor of the Company is PKF Mack.

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| *Fees paid or payable to PKF Mack:* | | |
| Audit or review of the financial report | 32,620 | 22,380 |
| Tax consulting | 13,950 | 2,500 |
| Other services | 9,900 | - |
| *Fees paid or payable to other audit firms:* | | |
| Audit or review of the financial report | 3,740 | - |
| | 60,210 | 24,880 |

## NOTE 22: PARENT ENTITY DISCLOSURES

AusCann Group Holdings Ltd (formerly TW Holdings Limited) is the legal parent entity.

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| Current assets | 15,428,383 | 380,550 |
| Total assets | 15,592,432 | 380,550 |
| Current liabilities | (130,523) | (60,604) |
| Total liabilities | (130,523) | (60,604) |
| Issued capital | 133,697,530 | 81,099,059 |
| Share-based payment reserve | 1,268,636 | - |
| Accumulated losses | (119,504,257) | (80,779,113) |
| Total equity | 15,461,909 | 319,946 |
| Loss of the parent entity | (38,725,144) | (652,426) |
| Total comprehensive loss of the parent entity | (38,725,144) | (652,426) |

### Legal subsidiaries

| | Country of Incorporation | Percentage interest 2017 % | Percentage interest 2016 % | Principal activities |
|---|---|---|---|---|
| AusCann Operations Pty Ltd (formerly AusCann Group Holdings Ltd) | Australia | 100% | - | Medicinal cannabis research, development and cultivation |

AusCann Group Holdings Ltd (formerly TW Holdings Limited) acquired AusCann Operations Pty Ltd in a reverse acquisition on 19 January 2017.

## NOTE 23: EVENTS SUBSEQUENT TO REPORTING DATE

AusCann was granted its manufacturing licence in August 2017, making the Company one of the first to have a complete and fully-Australian supply chain to provide medicinal cannabis products to patients. The Company's domestic licence to operate has also been expanded with the granting of a cultivation and production licence to the AusCann – Tasmanian Alkaloids strategic partnership.

Supporting the Chief Medical Officer and Medical Outreach Program, AusCann has appointed three Medical Liaison Managers, operating nationally, to provide scientific education to the medical community and facilitate data discussions in therapeutic areas relevant to the Company. Commencing early September, the Outreach Team will be conducting a second series of education seminars in Adelaide, Sydney, Melbourne and Perth, as well as in-field medical training of clinicians.

A consultation by the Office of Drug Control (ODC) seeking comment on the export of Australian cultivated and manufactured medicinal cannabis products closed in July 2017. Export of domestic product is not currently allowed but was envisaged in the second reading speech in Parliament outlining the Narcotic Drugs Amendment Act 2016, allowing for 'a provision for exports to be addressed at a later date'. On 8 August 2017, the ODC announced that it had received over 40 written submission and that there was overwhelming support for allowing export. AusCann remains watchful of developments in this space.

Other than as identified above, no events occurring subsequent to the end of financial year have significantly affected, or may significantly affect, the operations of the Company in subsequent financial years.

## NOTE 24: CORPORATE GOVERNANCE

The Board has adopted the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations, to the extent they are applicable to the Company.

The Company's corporate governance policies are outlined on its website at http://www.auscann.com.au/investor-centre/corporate-governance.html.